STATE OF ARIZONA

SENATE BILL 1083

AN ACT


(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 15-187, Arizona Revised Statutes, is amended to read:

15-187. Charter schools; teachers; employment benefits

A. A teacher who is employed by or teaching at a charter school and who was previously employed as a teacher at a school district shall not lose any right of certification, retirement or salary status or any other benefit provided by law, by the rules of the governing board of the school district or by the rules of the board of directors of the charter school due to teaching at a charter school on the teacher's return to the school district.

B. A teacher who is employed by or teaching at a charter school and who submits an employment application to the school district where the teacher was employed immediately before employment by or at a charter school shall be given employment preference by the school district if both of the following conditions are met:

1. The teacher submits an employment application to the school district not later than three years after ceasing employment with the school district.

2. A suitable position is available at the school district.

C. A charter school that is sponsored by a university, a community college district, a group of community college districts, the state board of education or the state board for charter schools is eligible to participate in the Arizona state retirement system pursuant to title 38, chapter 5, article 2. The charter school is a political subdivision of this state for purposes of title 38, chapter 5, article ARTICLES 2 AND 2.1.

D. Notwithstanding any other law, a charter school shall not adopt policies that provide employment retention priority for teachers based on tenure or seniority.

Sec. 2. Section 38-711, Arizona Revised Statutes, is amended to read:

38-711. Definitions

In this article, unless the context otherwise requires:

1. "Active member" means a member as defined in paragraph 23, subdivision (b) of this section who satisfies the eligibility criteria prescribed in section 38-727 and who is currently making member contributions as prescribed in section 38-736.

2. "Actuarial equivalent" means equality in value of the aggregate amounts expected to be received under two different forms of payment, based on mortality and interest rate assumptions approved from time to time by the board.

3. "ASRS" means the Arizona state retirement system established by this article.
4. "Assets" means the resources of ASRS including all cash, investments or securities.

5. "Average monthly compensation" means:
   (a) For a member whose membership in ASRS commenced before January 1, 1984 and who left the member's contributions on deposit or reinstated forfeited credited service pursuant to section 38-742 for a period of employment that commenced before January 1, 1984, the higher of either:
      (i) The monthly average of compensation that is calculated pursuant to subdivision (b) of this paragraph.
      (ii) The monthly average of compensation on which contributions were remitted during a period of sixty consecutive months during which the member receives the highest compensation within the last one hundred twenty months of credited service. Any month for which no contributions are reported to ASRS or that falls within a period of nonpaid or partially paid leave of absence or sabbatical leave shall be excluded from the computation. The sixty consecutive months may entirely precede, may be both before and after or may be completely after any excluded months. If the member was employed for less than sixty consecutive months, the average monthly compensation is based on the total consecutive months worked. Payments for accumulated vacation or annual leave, sick leave, compensatory time or other forms of termination pay that, before August 12, 2005, constitute compensation for members whose membership in ASRS commenced before January 1, 1984, do not cease to be included as compensation if paid in the form of nonelective employer contributions under a 26 United States Code section 403(b) plan if all payments of employer and employee contributions are made at the time of termination. Contributions shall be made to ASRS on these amounts pursuant to sections 38-735, 38-736 and 38-737.
   (b) For a member whose membership in ASRS commenced on or after January 1, 1984 but before July 1, 2011, the monthly average of compensation on which contributions were remitted during a period of thirty-six consecutive months during which a member receives the highest compensation within the last one hundred twenty months of credited service. Any month for which no contributions are reported to ASRS or that falls within a period of nonpaid or partially paid leave of absence or sabbatical leave shall be excluded from the computation. The thirty-six consecutive months may entirely precede, may be both before and after or may be completely after any excluded months. If the member was employed for less than thirty-six consecutive months, the average monthly compensation shall be based on the total consecutive months worked.
   (c) For a member whose membership in ASRS commenced on or after July 1, 2011, the monthly average of compensation on which contributions were remitted during a period of sixty consecutive months during which a member receives the highest compensation within the last one hundred twenty months of credited service. Any month for which no contributions are reported to ASRS or that falls within a period of nonpaid or partially paid leave of absence or sabbatical leave shall be excluded from the computation. The sixty consecutive months may entirely precede, may be both before and after or may be completely after any excluded months. If the member was employed for less than sixty consecutive months, the average monthly compensation shall be based on the total consecutive months worked.
twenty months of credited service. Any month for which no contributions are reported to ASRS or that falls within a period of nonpaid or partially paid leave of absence or sabbatical leave shall be excluded from the computation. The sixty consecutive months may entirely precede, may be both before and after or may be completely after any excluded months. If the member was employed for less than sixty consecutive months, the average monthly compensation shall be based on the total consecutive months worked.

6. "Board" means the ASRS board established in section 38-713.

7. "Compensation" means:

(a) For members whose membership began on or before December 31, 2019, the gross amount paid to a member by an employer as salary or wages, including amounts that are subject to deferred compensation or tax shelter agreements, for services rendered to or for an employer, or that would have been paid to the member except for the member's election or a legal requirement that all or part of the gross amount be used for other purposes, but does not include amounts paid in excess of compensation limits established in section 38-746. Compensation includes amounts paid as salary or wages to a member by a second employer if the member meets the requirements prescribed in paragraph 23, subdivision (b) of this section with that second employer. Compensation, as provided in paragraph 5, subdivision (b) or (c) of this section, does not include:

(i) Lump sum payments, on termination of employment, for accumulated vacation or annual leave, sick leave, compensatory time or any other form of termination pay whether the payments are made in one payment or by installments over a period of time.

(ii) Damages, costs, attorney fees, interest or other penalties paid pursuant to a court order or a compromise settlement or agreement to satisfy a grievance or claim even though the amount of the payment is based in whole or in part on previous salary or wage levels, except that, if the court order or compromise settlement or agreement directs salary or wages to be paid for a specific period of time, the payment is compensation for that specific period of time. If the amount directed to be paid is less than the actual salary or wages that would have been paid for the period if service had been performed, the contributions for the period shall be based on the amount of compensation that would have been paid if the service had been performed.

(iii) Payment, at the member's option, in lieu of fringe benefits that are normally paid for or provided by the employer.

(iv) Merit awards pursuant to section 38-613 and performance bonuses paid to assistant attorneys general pursuant to section 41-192.

(v) Amounts that are paid as salary or wages to a member for which employer contributions have not been paid.
(b) For a member whose membership began on or after January 1, 2020, only gross wages paid to a member by the employer for services rendered to the employer during the period considered as credited service, including amounts reported as wages and tips and other compensation on the member's federal form W-2 wage and tax statement, including pretax deductions, except for the following:

(i) Payments made for accrued leave that is not being used to replace regular work hours, whether paid in a lump sum or in installments.

(ii) Payments made on termination from employment, whether paid in a lump sum or in installments or as a bonus or an incentive for termination or retirement.

(iii) Employer-paid contributions that are made to, and any distributions from, plans, programs or arrangements qualified under section 117, 125, 129, 401, 403, 408 or 457 of the internal revenue code.

(iv) Payments for allowances.

(v) Reimbursements for employee business expenses or employee personal expenses.

(vi) Employer-paid contributions for coverage under, or distributions from, an accident, health or life insurance plan, program or arrangement.

(vii) Payments made in lieu of any employer-paid insurance coverage.

(viii) Workers' compensation, unemployment compensation payments and disability payments.

(ix) Merit awards pursuant to section 38-613.

(x) Payments paid pursuant to a court order or settlement agreement to satisfy a claim even though the amount of the payment is based on previous salary or wage levels, except if the court order or settlement agreement directs salary or wages to be paid for a specific period of time, the payment is compensation for that specific period of time.

(xi) Payments made in the form of goods or services in lieu of gross wages.

(xii) Any other payment that is not reported as wages and tips and other compensation on the member's federal W-2 wage and tax statement for actual services rendered.

(xiii) Payments in excess of the section §401(a)(17) of the internal revenue code limits established in section 38-746.

(xiv) Payments for any other employment benefit.

(xv) Payments for which employer or employee contributions have not been paid.

8. "Contingent annuitant" means the person named by a member to receive retirement income payable following a member's death after retirement as provided in section 38-760.
9. "Credited service" means, subject to section 38-739, the number of years standing to the member's credit on the books of ASRS during which the member made the required contributions.

10. "Current annual compensation" means the greater of:
   (a) Annualized compensation of the typical pay period amount immediately before the date of a request to ASRS to purchase credited service pursuant to section 38-743, 38-744 or 38-745. The typical pay period amount shall be determined by taking the five pay periods immediately before the date of a request, disregarding the highest and lowest compensation amount pay periods and averaging the three remaining pay periods.
   (b) Annualized compensation of the partial year, disregarding the first compensation amount pay period, if the member has less than twelve months total compensation on the date of a request to purchase credited service pursuant to section 38-743, 38-744 or 38-745.
   (c) The sum of the twelve months of compensation immediately before the date of a request to ASRS to purchase credited service pursuant to section 38-743, 38-744 or 38-745.
   (d) The sum of the thirty-six months of compensation immediately before the date of a request to ASRS to purchase credited service pursuant to section 38-743, 38-744 or 38-745 divided by three.
   (e) If the member has retired one or more times from ASRS, the average monthly compensation that was used for calculating the member's last pension benefit times twelve.

11. "Early retirement" means retirement before a member's normal retirement date after five years of total credited service and attainment of age fifty.

12. "Effective date" means July 1, 1970, except with respect to employers and members whose contributions to ASRS commence thereafter, the effective date of their membership in ASRS is as specified in the applicable joinder agreement.

13. "Employer" means:
   (a) This state.
   (b) Participating political subdivisions.
   (c) Participating political subdivision entities.

14. "Employer contributions" means all amounts paid into ASRS by an employer on behalf of a member.

15. "Fiscal year" means the period from July 1 of any year to June 30 of the following year.

16. "Inactive member" means a member who previously made contributions to ASRS and who satisfies each of the following:
   (a) Has not retired.
   (b) Is not eligible for active membership in ASRS.
   (c) Is not currently making contributions to ASRS.
   (d) Has not withdrawn contributions from ASRS.
17. "Interest" means the assumed actuarial investment earnings rate approved by the board.
18. "Internal revenue code" means the United States internal revenue code of 1986, as amended.
19. "Investment manager" means the persons, companies, banks, insurance company investment funds, mutual fund companies, management or any combinations of those entities that are appointed by ASRS and that have responsibility and authority for investment of the monies of ASRS.
20. "Late retirement" means retirement after normal retirement.
21. "Leave of absence" means any unpaid leave authorized by the employer, including leaves authorized for sickness or disability or to pursue education or training.
22. "Life annuity" means equal monthly installments payable during the member's lifetime after retirement.
23. "Member":
   (a) Means any employee of an employer on the effective date.
   (b) Means all employees of an employer who are eligible for membership pursuant to section 38-727 and who are engaged to work at least twenty weeks in each fiscal year and at least twenty hours each week.
   (c) Means any person receiving a benefit under ASRS.
   (d) Means any person who is a former active member of ASRS and who has not withdrawn contributions from ASRS pursuant to section 38-740.
   (e) Does not include any employee of an employer who is otherwise eligible pursuant to this article and who begins service in a limited appointment for not more than eighteen months on or after July 1, 1979. If the employment exceeds eighteen months, the employee shall be covered by ASRS as of the beginning of the nineteenth month of employment. In order to be excluded under this subdivision, classifications of employees designated by employers as limited appointments must be approved by the director.
   (f) Does not include any leased employee. For the purposes of section 414(n) of the internal revenue code, "leased employee" means an individual who:
      (i) Is not otherwise an employee of an employer.
      (ii) Pursuant to a leasing agreement between the employer and another person, performs services for the employer on a substantially full-time basis for at least one year.
      (iii) Performs services under the primary direction or control of the employer.
24. "Member contributions" means all amounts paid to ASRS by a member.
25. "Normal costs" means the sum of the individual normal costs for all active members for each fiscal year. The normal cost for an individual active member is the cost that is assigned to the fiscal year through June 29, 2016, using the projected unit credit method and,
beginning June 30, 2016, using the actuarial cost method determined by the board pursuant to section 38-714.

26. "Normal retirement age" means the age at which a member reaches the member's normal retirement date.

27. "Normal retirement date" means the earliest of the following:

(a) For a member whose membership commenced before July 1, 2011:
   (i) A member's sixty-fifth birthday.
   (ii) A member's sixty-second birthday and completion of at least ten years of credited service.
   (iii) The first day that the sum of a member's age and years of total credited service equals eighty.

(b) For a member whose membership commenced on or after July 1, 2011:
   (i) A member's sixty-fifth birthday.
   (ii) A member's sixty-second birthday and completion of at least ten years of credited service.
   (iii) A member's sixtieth birthday and completion of at least twenty-five years of credited service.
   (iv) A member's fifty-fifth birthday and completion of at least thirty years of credited service.

28. "Political subdivision" means any political subdivision of this state and includes a political subdivision entity.

29. "Political subdivision entity" means an entity:

(a) That is located in this state.
(b) That is created in whole or in part by political subdivisions, including instrumentalities of political subdivisions.
(c) Where a majority of the membership of the entity is composed of political subdivisions.
(d) Whose primary purpose is the performance of a government-related service.

30. "Retired member" means a member who is receiving retirement benefits pursuant to this article.

31. "Service year" means fiscal year, except that:

(a) If the normal work year required of a member is less than the full fiscal year but is for a period of at least nine months, the service year is the normal work year.
(b) For a salaried member employed on a contract basis under one contract, or two or more consecutive contracts, for a total period of at least nine months, the service year is the total period of the contract or consecutive contracts.
(c) In determining average monthly compensation pursuant to paragraph 5 of this section, the service year is considered to be twelve months of compensation.
32. "State" means this state, including any department, office, board, commission, agency, institution or other instrumentality of this state.
33. "Vested" means that a member is eligible to receive a future retirement benefit.

Sec. 3. Section 38-714, Arizona Revised Statutes, is amended to read:

38-714. Powers and duties of ASRS and board
A. ASRS shall have the powers and privileges of a corporation, shall have an official seal and shall transact all business in the name "Arizona state retirement system", and in that name may sue and be sued.
B. The board is responsible for supervising the administration of this article by the director of ASRS.
C. The board is responsible for the performance of fiduciary duties and other responsibilities required to preserve and protect the retirement trust fund established by section 38-712.
D. The board shall not advocate for or against legislation providing for benefit modifications, except that the board shall provide technical and administrative information regarding the impact of benefit modification legislation.
E. The board may:
   1. Determine the rights, benefits or obligations of any person under this article and any member under articles 2.1 and 7 of this chapter and afford any person dissatisfied with a determination a hearing on the determination. The board may delegate the duty and authority to act on the board's behalf to a committee of the board for the purposes of this paragraph and title 41, chapter 6, article 10 relating to any decision made under this paragraph by that committee of the board.
   2. Determine the amount, manner and time of payment of any benefits under this article.
   3. Recommend amendments to this article and articles 2.1 and 7 of this chapter that are required for efficient and effective administration.
   4. Adopt, amend or repeal rules for the administration of the plan, this article and articles 2.1 and 7 of this chapter.
F. Beginning June 30, 2016, the board shall determine which of the generally accepted actuarial cost methods shall be used in the annual actuarial valuation of the plan.
G. The board and ASRS are not subject to title 41, chapter 6, except title 41, chapter 6, article 10, for actuarial assumptions and calculations, investment strategy and decisions and accounting methodology.
H. The board shall submit to the governor and legislature for each fiscal year not later than eight months after the close of the fiscal year a report of its operations and the operations of ASRS. The report
shall follow generally accepted accounting principles and generally accepted financial reporting standards and shall include:

1. A report on an actuarial valuation of ASRS assets and liabilities.
2. Any other statistical and financial data that may be necessary for the proper understanding of the financial condition of ASRS and the results of board operations.
3. On request of the governor or the legislature, a list of investments owned. This list shall be provided in an electronic format.
4. An estimate of the aggregate fees paid for private equity investments, including management fees and performance fees.

I. The board shall:
1. Prepare and publish a synopsis of the annual report for the information of ASRS members.
2. Contract for a study of the mortality, disability, service and other experiences of the members and employers participating in ASRS. The study shall be conducted for fiscal year 1990-1991 and for at least every fifth fiscal year thereafter. A report of the study shall be completed within eight months after the close of the applicable fiscal year and shall be submitted to the governor and the legislature.
3. Conduct an annual actuarial valuation of ASRS assets and liabilities.

J. The auditor general may make an annual audit of ASRS and transmit the results to the governor and the legislature.

K. IN DETERMINING THE PAST SERVICE FUNDING PERIOD, THE BOARD SHALL SEEK TO IMPROVE THE FUNDED STATUS WHENEVER THE TRUST FUND ESTABLISHED BY SECTION 38-712 IS LESS THAN ONE HUNDRED PERCENT FUNDED.

Sec. 4. Section 38-737, Arizona Revised Statutes, is amended to read:

38-737. Employer contributions

A. Employer contributions shall be a percentage of compensation of all employees of the employers WHO MEET THE ELIGIBILITY REQUIREMENTS CONTAINED IN THIS ARTICLE, excluding the compensation of those employees who are members of the defined contribution program administered by ASRS, as determined by the ASRS actuary pursuant to this section for June 30 of the fiscal year immediately preceding the preceding fiscal year, except that beginning with fiscal year 2001-2002 the contribution rate shall not be less than two percent of compensation of all employees of the employers. Beginning July 1, 2011 through June 29, 2016, the total employer contribution shall be determined on the projected unit credit method. Beginning June 30, 2016, the board shall determine the actuarial cost method pursuant to section 38-714. The total employer contributions shall be equal to the employer normal cost plus the amount required to amortize the past service funding requirement over a period that is determined by the board and consistent with generally accepted actuarial...
standards. In determining the past service funding period, the board shall seek to improve the funded status whenever the ASRS trust fund is less than one hundred percent funded.

B. All contributions made by the employer and allocated to the fund established by section 38-712 are irrevocable and shall be used as benefits under this article or to pay expenses of ASRS.

C. The required employer contributions shall be determined on an annual basis by an actuary who is selected by the board and who is a fellow of the society of actuaries. ASRS shall provide by December 1 of each fiscal year to the governor, the speaker of the house of representatives and the president of the senate the contribution rate for the ensuing fiscal year and the unfunded actuarial accrued liability, the funded status based on the actuarial value of assets and market value of assets and the annualized rate of return and the ten-year rate of return as of June 30 of the prior fiscal year.

Sec. 5. Section 38-740, Arizona Revised Statutes, is amended to read:

38-740. Return of contributions
A. A member whose membership commenced before July 1, 2011 and who leaves employment other than by retirement or death may elect to receive a return of the contributions as follows:
1. If the member has less than five years of credited service, the member ASRS shall receive dispose all of the member's contributions.
2. If a member has five or more years of credited service, the member ASRS shall receive dispose the member's contributions and an amount equal to a percentage of the employer contributions paid on behalf of the member. This amount excludes payments made by an employer pursuant to section 38-738, subsection B, paragraph 3, unless the member has made the payment required by section 38-738, subsection B, paragraph 1. The percentage of employer contributions paid on behalf of the member shall be as follows:
   (a) 5.0 to 5.9 years of credited service, twenty-five percent.
   (b) 6.0 to 6.9 years of credited service, forty percent.
   (c) 7.0 to 7.9 years of credited service, fifty-five percent.
   (d) 8.0 to 8.9 years of credited service, seventy percent.
   (e) 9.0 to 9.9 years of credited service, eighty-five percent.
   (f) 10.0 or more years of credited service, one hundred percent.
3. Interest on the returned contributions as determined by the board.
B. A member whose membership commenced on or after July 1, 2011 and who leaves employment other than by retirement or death may elect to receive a return of all of the member's contributions with interest as determined by the board.

C. Notwithstanding subsection B of this section, if a member has five or more years of credited service and the member is terminated solely because of an employer reduction in force by reason of a lack of monies or elimination of the member's position, the member is entitled to receive the amounts prescribed in subsection A of this section.

D. Withdrawal of contributions with interest constitutes a withdrawal from membership in ASRS and results in a forfeiture of all other benefits under ASRS.

E. If a member ASRS has received DISBURSED an overpayment pursuant to section 38-765 or 38-797.08, ASRS shall withhold the overpayment amount plus any required income tax withholding from the return of contributions.

F. Notwithstanding any other provision of this article, a member who has not received a return of contributions pursuant to this section may combine any two or more periods of service for purposes of determining the member's benefits.

G. If a member ASRS receives more than the amount due to a member OR AN ALTERNATE PAYEE pursuant to this section, the member PERSON WHO RECEIVED THE OVERPAYMENT shall repay the amount of the overpayment together with interest at the interest rate earned on ASRS investments as reported on a quarterly basis, but not less than the valuation rate established by the board, from the time of overpayment to the settlement of the debt.

Sec. 6. Section 38-741, Arizona Revised Statutes, is amended to read:

38-741. Reemployment of inactive member

A. ASRS shall return to active status an inactive member who terminates employment with an employer without terminating membership in ASRS and who later is reemployed by the same or another employer.

B. On retirement, the member ASRS shall receive DISBURSE benefits derived from service for all employers that employed the member.

C. Retirement benefits attributable to service before membership in ASRS, if any, shall be paid only by the employer from which the retiring member obtained entitlement to the benefits as provided in section 38-729.

Sec. 7. Section 38-747, Arizona Revised Statutes, is amended to read:

38-747. Purchase of credited service; payment; limitations; definitions

A. A member who purchases credited service pursuant to section 38-738, 38-742, 38-743, 38-744, 38-745 or 38-922 shall either:

1. Make payments directly to ASRS as provided in subsection H of this section.
2. Elect to have the member's employer make payments as provided in subsection B of this section.

B. A member may elect to have the member's employer make payments for all or any portion of the amounts payable for the member's purchase of credited service pursuant to the sections prescribed in subsection A of this section through a salary reduction program in accordance with the following:

1. The amounts paid pursuant to a salary reduction program are in lieu of contributions by the electing member. The electing member's salary or other compensation shall be reduced by the amount paid by the employer pursuant to this subsection. For the purposes of this paragraph, "other compensation" includes a member's termination pay.

2. The member shall make an election pursuant to this subsection at any time on or after the date the member elects to purchase credited service pursuant to the sections prescribed in subsection A of this section and before the member's termination of employment. The election shall specify the number of payroll periods that deductions will be made from the member's compensation and the dollar amount of deductions for each payroll period during the specified number of payroll periods. In the case of an election to utilize all or any part of the member's termination pay to purchase credited service, the member's election shall be made at least three full calendar months before the date of the member's termination of employment and entitlement to receive the termination pay. After an election is made pursuant to this subsection, the election is binding on and irrevocable for the member and the member's employer during the member's remaining period of current employment. After a member makes an irrevocable election pursuant to this subsection, the member does not have the option of choosing to receive the contributed amounts directly. For the purposes of this paragraph, "termination pay" means any lump sum that is paid at the member's termination of employment for accrued vacation, sick leave or overtime pay.

3. A member who makes an irrevocable election pursuant to this subsection to have the member's employer make payments for less than all of the amounts payable for the member's purchase of credited service may irrevocably elect to have the member's employer make payments for all or any portion of the remaining amounts payable for the member's purchase of credited service. A member who makes one or more irrevocable elections pursuant to this subsection may also make other contributions to ASRS pursuant to subsection H of this section to the extent of any remaining amounts payable for which the member has not made an election pursuant to this subsection. An additional election or contribution with respect to a portion of the amounts payable for the member's purchase of credited service does not alter, amend or revoke an irrevocable election already made pursuant to this subsection for any other portion of the amounts payable for the member's purchase of credited service.
4. If on termination of the member's employment with an ASRS employer all amounts have not been paid to ASRS pursuant to the member's irrevocable election pursuant to this subsection, the member may pay ASRS, within thirty days after the member's termination of employment and subject to other limitations prescribed in this section, all or any portion of the unpaid amounts as provided in subsection H of this section. These payments do not alter, amend or revoke any irrevocable election already made pursuant to this subsection with respect to any amount to be paid by the member's employer while the member is employed by the member's employer.

5. Amounts paid by an employer pursuant to this subsection shall be treated as employer contributions for the purpose of determining tax treatment under the internal revenue code. The effective date of employer payments pursuant to this subsection shall not be before the date ASRS receives notification from the United States internal revenue service that pursuant to section 414(h)(2) of the internal revenue code the amounts paid by an employer pursuant to this subsection will not be included in the member's gross income for income tax purposes until those amounts are distributed by refund or retirement benefit payments.

6. Unless otherwise provided, member contributions paid by an employer pursuant to this subsection are treated for all other purposes under ASRS in the same manner and to the same extent as member contributions that are not paid by an employer pursuant to this subsection. ASRS shall not grant credited service for contributions made pursuant to this subsection until those contributions are received by ASRS. ASRS may assess interest or administrative charges attributable to any salary reduction election made pursuant to this subsection. The interest or administrative charges shall be added to the amount of contributions that is made to ASRS by the member each payroll period and that is paid by the member's employer. The interest or administrative charges shall not be treated as member contributions for any purposes under this article and a member or a member's beneficiary does not have a right to the return of the interest or administrative charges pursuant to any other provision of this article. Interest assessed pursuant to this subsection shall be at the rate specified by the board pursuant to section 38-711, paragraph 2.

7. If a member transfers employment from one participating employer with which the member has made an irrevocable election pursuant to this subsection to another participating employer, the member and the successor participating employer shall complete the terms of the irrevocable election that the member made with the original participating employer.

C. A member who elects before July 1, 1999 to receive retirement benefits based on section 38-771, subsection C, paragraph 2 or a member who elects to make contributions to ASRS pursuant to section 38-771.01, subsection F, paragraph 4 shall either make the member's additional
contributions required pursuant to section 38-771, subsection E or allowed pursuant to section 38-771.01, subsection F, paragraph 4 directly to ASRS as provided in subsection H of this section or shall elect to have the member's employer make payments for those additional contributions as provided in subsection D of this section. A member who elected to be covered or who was deemed to be covered by section 38-771 on or before December 31, 1995 or who elects to make member contributions pursuant to section 38-771.01, subsection F, paragraph 3 is deemed to have made an irrevocable election pursuant to subsection D of this section to make the member's contributions to ASRS that are required by section 38-771, subsection D or allowed by section 38-771.01, subsection F, paragraph 3.

D. Any member contributions that are required by section 38-771, subsection D or that are allowed pursuant to section 38-771.01, subsection F, paragraph 3 are deemed to be made by the member to ASRS through a salary reduction program in accordance with the following:

1. A member may make member contributions pursuant to section 38-771, subsection E or section 38-771.01, subsection F, paragraph 4 through a salary reduction program elected pursuant to this subsection. If a member makes an irrevocable election pursuant to this subsection before July 1, 1999 to have the member's employer make payments for additional contributions pursuant to section 38-771, subsection E, the election continues in effect from and after June 30, 1999 and shall not be revoked, amended or altered by any election made pursuant to section 38-771.01 or otherwise. The amounts paid pursuant to a salary reduction program are in lieu of contributions by the electing member. The member's salary or other compensation shall be reduced by the amount paid by the employer pursuant to this subsection.

2. Before a member's termination of employment, the member may make an election pursuant to this subsection at any time after the date the member elects to receive retirement benefits based on section 38-771, subsection C, paragraph 2 but before July 1, 1999 or at any time after the member elects to make member contributions pursuant to section 38-771.01, subsection F, paragraph 4. The election shall specify the number of payroll periods that deductions will be made from the member's compensation and the dollar amount of deductions for each payroll period during the specified number of payroll periods. After an election is made pursuant to this subsection, the election is binding on and irrevocable for the member and the member's employer during the member's remaining period of employment.

3. After a member makes or is deemed to have made an irrevocable election pursuant to this subsection, the member does not have the option of choosing to receive the contributed amounts directly. A member who makes an irrevocable election pursuant to this subsection to have the member's employer make payments for less than all of the amounts payable for the member's additional contributions allowed by section 38-771.01,
subsection F, paragraph 4 may irrevocably elect to have the member's employer make payments for all or any portion of the remaining amounts payable for the member's additional contributions. A member who makes one or more irrevocable elections pursuant to this subsection may also make other contributions to ASRS pursuant to section 38-771.01, subsection F, paragraph 4 or pursuant to subsection H of this section to the extent of any remaining amounts payable for which the member has not made an election pursuant to this subsection. An additional election or contribution with respect to a portion of the amounts payable for the member's additional contributions pursuant to section 38-771.01, subsection F, paragraph 4 does not alter, amend or revoke an irrevocable election already made pursuant to this subsection for any other portion of the amounts payable for the member's additional contributions allowed by section 38-771.01, subsection F, paragraph 4.

4. If on termination of the member's employment all amounts have not been paid to ASRS pursuant to the member's irrevocable election pursuant to this subsection, the member may pay ASRS, within thirty days after the member's termination of employment and subject to other limitations prescribed in this section, all or any portion of the unpaid amounts as provided in subsection H of this section. These payments do not alter, amend or revoke any irrevocable election already made pursuant to this subsection with respect to any amount to be paid by the member's employer while the member is employed by the member's employer.

5. Amounts paid by an employer pursuant to this subsection shall be treated as employer contributions for the purpose of determining tax treatment under the internal revenue code. The effective date of employer payments pursuant to this subsection shall not be before the date ASRS receives notification from the United States internal revenue service that pursuant to section 414(h)(2) of the internal revenue code the amounts paid by an employer pursuant to this subsection will not be included in the member's gross income for income tax purposes until those amounts are distributed by refund or retirement benefit payments.

6. Unless otherwise provided, member contributions paid by an employer pursuant to this subsection are treated for all other purposes under ASRS in the same manner and to the same extent as member contributions that are not paid by an employer pursuant to this subsection.

7. If a member transfers employment from one participating employer with which the member has made an irrevocable election pursuant to this subsection to another participating employer, the member and the successor participating employer shall complete the terms of the irrevocable election that the member made with the original participating employer.

E. The following limits apply to contributions to ASRS:

1. Except to the extent paragraphs 2 and 3 of this subsection apply to certain contributions made by a member to ASRS and to the extent
permitted under section 414(v) of the internal revenue code, if applicable, in any one limitation year, the annual additions contributed or allocated to ASRS for or on behalf of a member shall not exceed the lesser of either:

(a) forty thousand dollars $40,000 or a larger amount that is prescribed by the board and that is due to any cost of living adjustment announced by the United States secretary of the treasury pursuant to section 415(d) of the internal revenue code. The board shall increase the amount prescribed by this subdivision as of the effective date of the increase announced by the United States secretary of the treasury.

(b) One hundred percent of the member's compensation for the limitation year. The compensation limit prescribed in this subdivision does not apply to any contribution to ASRS for medical benefits after a member's separation from service, within the meaning prescribed in section 401(h) or 419A(f)(2) of the internal revenue code, that is otherwise treated as an annual addition.

2. Unless paragraph 4 of this subsection applies, for plan years beginning on or after July 1, 1998, in any one limitation year, the annual additions credited to ASRS for or on behalf of a member who makes contributions to ASRS to purchase credited service pursuant to section 38-743, 38-744, 38-745 or 38-922 and with respect to which an irrevocable election has not been made pursuant to subsection B of this section shall not exceed the greater of either:

(a) The requirements of section 38-769. For the purposes of applying the limits prescribed in section 38-769 under this subdivision, the accrued benefit derived from the contributions shall be treated as an annual benefit and the reduced limit for certain early retirement in section 38-769, subsection C, paragraph 2 does not apply.

(b) Except as provided in paragraph 3 of this subsection, the requirements of paragraph 1 of this subsection. The contributions shall be treated as annual additions and any of the member's other annual additions for the limitation year shall be taken into account. For the purposes of applying the requirements of paragraph 1 of this subsection under this subdivision, the percentage of compensation limit in paragraph 1, subdivision (b) of this paragraph does not apply.

3. For plan years beginning on or after July 1, 1998, the requirements of paragraph 1 of this subsection shall not be applied to reduce the amount of credited service that may be purchased by an eligible member pursuant to section 38-743, 38-744, 38-745 or 38-922 to an amount that is less than the amount of credited service allowed to be purchased pursuant to those sections on August 5, 1997 without the application of any of the limits prescribed in this section or section 415 of the internal revenue code. For the purposes of this paragraph, "eligible member" means a person who first becomes a member of ASRS before July 1, 1999.
4. Member contributions to ASRS to purchase credited service pursuant to section 38-743, 38-744 or 38-922 shall not be made by a member if recognition of that service would cause a member to receive a retirement benefit for the same service from ASRS and one or more other retirement plans. This paragraph does not apply to either of the following:

   (a) Contributions made by an eligible member as defined in paragraph 3 of this subsection, except that any service purchase by an eligible member is subject to any other limitations, including limitations on duplicative service purchase, otherwise provided in this article.
   
   (b) Any member contributions with respect to which an irrevocable election has been made by a member pursuant to subsection B of this section, except that the service purchase is subject to any other limitations, including limitations on duplicative service purchase, otherwise provided in this article.

F. If a member's contributions are subject to the limitations of subsection E of this section, the contributions shall be treated as being made to a separate defined contribution plan. If the member's contributions exceed the limits prescribed in subsection E of this section when taking into account other member and employer contributions to ASRS on behalf of the member for the limitation year, the amount to be paid by the member shall be reduced to not exceed the limits prescribed in subsection E of this section and the remaining amount shall be carried forward to the next limitation year, unless the limits are exceeded in the next limitation year. If the limits are exceeded in the next limitation year, the procedure prescribed by this subsection shall be repeated until all payments have been made.

G. If, after the application of subsection F of this section, the annual additions on behalf of a member exceed the limitations prescribed in subsection E of this section, ASRS shall dispose of excess amounts by either of the following:

   1. Returning to the member any contributions that are made by the member and that are nondeductible under the internal revenue code.
   
   2. Holding the amounts in a suspense account established pursuant to subsection L of this section and allocating the amounts as either member or employer contributions for the benefit of the member in the next limitation year and before any further member or employer contributions are made that would constitute annual additions made to a defined contribution plan pursuant to section 415 of the internal revenue code. ASRS shall allocate contributions as prescribed in this section, and the amount allocated shall reduce the amount of the member or employer contributions for the limitation year in which the allocation is made.

H. To the extent that a payment under this subsection does not alter, amend or revoke any one or more currently effective irrevocable elections made by the member pursuant to subsection B or D of this
section, the board may accept contributions made pursuant to section 38-771 or member contributions for the payment for credited service purchases pursuant to section 38-738, 38-742, 38-743, 38-744, 38-745 or 38-922 or contributions made pursuant to section 38-771.01, subsection F, paragraph 4, in whole or in part, by any one or a combination of the following methods:

1. In lump sum payments.

2. Subject to the limitations prescribed in sections 401(a)(31) and 402(c) of the internal revenue code and subsection J of this section, accepting a direct transfer of any eligible rollover distribution from one or more:

   (a) Retirement programs that are qualified under section 401(a) or 403(a) of the internal revenue code.

   (b) Annuity contracts described in section 403(b) of the internal revenue code.

   (c) Eligible deferred compensation plans described in section 457(b) of the internal revenue code that are maintained by a state, a political subdivision of a state or any agency or instrumentality of a state or a political subdivision of a state.

3. Accepting from a member a direct transfer from an individual retirement account or individual retirement annuity described in section 408(a) or 408(b) of the internal revenue code of an amount that would otherwise be eligible to be rolled over to ASRS under the provisions of section 408(d)(3)(A)(ii) of the internal revenue code if the amount had been received by the member and would have otherwise been includible in the member's gross income but for the direct transfer.

4. Providing by rule that the contributions may be made in installment payments over a period of time.

I. To the extent that a payment under this subsection does not alter, amend or revoke any one or more currently effective irrevocable elections made by a member pursuant to subsection B or D of this section, the board may accept a direct trustee-to-trustee transfer from retirement programs that are qualified under section 401(a) or 403(a) of the internal revenue code, an annuity contract described in section 403(b) of the internal revenue code or an eligible deferred compensation plan described in section 457(b) of the internal revenue code for the payment for credited service purchases pursuant to section 38-742, 38-743, 38-744, 38-745 or 38-922. If a direct trustee-to-trustee transfer is from a retirement program that is qualified under section 401(a) of the internal revenue code and that includes a cash or deferred arrangement described in section 401(k) of the internal revenue code, the member on whose behalf the transfer was made is not eligible to retire under section 38-764, subsection H before the date the member attains fifty-nine and one-half years of age.
J. ASRS shall separately account for all amounts rolled over or directly transferred to ASRS. Subject to the limitations contained in the internal revenue code applicable to the type of plan from which an eligible rollover distribution is transferred, to the extent any eligible rollover distribution that is directly transferred to ASRS consists wholly or partially of amounts that would otherwise not be included in the member's gross income if not so transferred, ASRS shall separately account for the amounts so transferred, and earnings on those amounts, including separately accounting for the portion of the amount that is includable in gross income and the portion of the amount that is not includable in gross income.

K. ASRS shall not grant credited service under section 38-738, 38-742, 38-743, 38-744 or 38-922 for contributions made pursuant to subsection H of this section until the contributions are received by ASRS. ASRS may assess interest or administrative charges attributable to any installment payment made pursuant to subsection H, paragraph 4 of this section to purchase credited service pursuant to section 38-738, 38-742, 38-743, 38-744 or 38-922. The interest or administrative charges shall be added to the amount of contributions made to ASRS by the member. The interest or administrative charges shall not be treated as member contributions for any purposes under this article, and a member or a member's beneficiary does not have a right to the return of the interest or administrative charges pursuant to any other provision of this article. Interest assessed pursuant to this subsection shall be at the rate specified by the board pursuant to section 38-711, paragraph 2.

L. Notwithstanding any provision of this article to the contrary, if the annual additions credited on behalf of an ASRS member during any limitation year exceed the limits of section 415(c) of the internal revenue code and subsection E of this section, ASRS may only correct the excess pursuant to the employee plans compliance resolution system prescribed in internal revenue service revenue procedure 2008-50 or any future guidance issued by the internal revenue service, including the preamble of the final treasury regulations issued under section 415 of the internal revenue code.

M. If the member retires before all payments are made pursuant to this section, ASRS shall calculate the member's benefits based only on the payments actually made.

N. On satisfaction of the requirements of this section, ASRS shall adjust the member's credited service history and add any additional service credits acquired.

O. Annual additions on behalf of a member in any limitation year shall be the sum of:
   1. The amount of the member contributions made to ASRS to purchase credited service pursuant to section 38-738, 38-743, 38-744, 38-745 or
38-922 and with respect to which an irrevocable election made pursuant to subsection B of this section is not in effect.

2. The amount of member and employer contributions made to ASRS on behalf of a member who elected or was deemed to have elected to receive retirement benefits pursuant to section 38-771 or who is entitled to benefits pursuant to section 38-771.01, except that, other than as provided in subsection P of this section, corrective contributions shall be considered annual additions for the limitation years to which the contributions relate and interest and gains shall not be considered as annual additions for the purpose of any limitation prescribed in this article or in section 415 of the internal revenue code. If the corrective contributions exceed the limit on annual additions for a limitation year prior to the limitation year in which the corrective contributions are contributed by the employer to ASRS, the retirement benefit attributable to the excess corrective contributions shall be treated as an excess benefit and shall be payable to the member as any other excess benefit is payable pursuant to section 38-774, and the employer shall pay the excess corrective contributions to the separate unfunded governmental excess benefit arrangement administered by the board pursuant to section 38-774.

3. Any member or employer contributions made to ASRS or any other plan that are treated as being made to a defined contribution plan maintained by an employer of the member.

4. Any forfeitures, including any income attributable to forfeitures, allocated for or on behalf of a member of ASRS or any other plan that are treated as being allocated under a defined contribution plan maintained by an employer of the member.

P. To the extent any portion of the subject benefits, if treated as subject to the benefit limitations of section 415(b) of the internal revenue code, exceed the applicable limitation on benefits pursuant to section 38-769 for the form of distribution, a percentage of corrective contributions and interest and gains shall be treated as annual additions for the limitation year in which contributed by the employer to ASRS. This percentage of corrective contributions and interest and gains shall be equal to the percentage determined by dividing the subject benefits that exceed the limitation on benefits pursuant to section 38-769 by the subject benefits. If the corrective contributions and interest and gains that are treated as annual additions for the limitation year in which the corrective contributions and interest and gains are contributed by the employer to ASRS exceed the limit on annual additions for the limitation year, the retirement benefit attributable to the excess shall be treated as an excess benefit and shall be payable to the member as any other excess benefit is payable pursuant to section 38-774, and the employer shall pay the excess to the separate unfunded governmental excess benefit arrangement administered by the board pursuant to section 38-774.
Q. Subsection O of this section shall be construed and interpreted in accordance with section 415 of the internal revenue code and the final treasury regulations issued under that section.

R. For the purposes of this section:
1. "Compensation" has the same meaning prescribed in section 38-769.
2. "Corrective contributions" means any contributions that are paid by an employer pursuant to section 38-771.01, subsection C, paragraph 3 and that are attributable to employer contributions that should have been made for prior limitation years.
3. "Defined contribution plan" has the same meaning prescribed in section 38-769.
4. "Eligible rollover distribution" has the same meaning prescribed in section 38-770.
5. "Interest and gains" means employer contributions to ASRS pursuant to section 38-771.01, subsection C, paragraphs 3, 5 and 6 that are attributable to earnings and supplemental credits that would have been earned or added to a member's annuity payment.
6. "Limitation year" has the same meaning prescribed in section 38-769.
7. "Participating employer" means an employer that participates in ASRS.
8. "Subject benefits" means the retirement benefit received by a member pursuant to section 38-771.01 minus the sum of the portion of such retirement benefit attributable to contributions that were made by or on behalf of the member to the defined contribution program administered by ASRS for periods before July 1, 1981 and contributions that were made by the member after June 30, 1981 and that were not picked up as provided in section 414(h)(2) of the internal revenue code.

Sec. 8. Section 38-750, Arizona Revised Statutes, is amended to read:

38-750. Transfers out of the system
A. If an employee has made an irrevocable election pursuant to section 38-747, subsection B or D and transfers participation to another defined benefit retirement system or plan of this state without a termination of employment, within ninety days after the date of the transfer, ASRS shall transfer to the subsequent defined benefit retirement system or plan the amount the employee paid for the purchase of the credited service plus interest as determined by ASRS.

B. If the assets transferred from ASRS are less than the cost of the benefits accrued relative to the credited service as calculated pursuant to section 38-922, subsection B, paragraph 2, and unless a law otherwise provides, the employee shall elect either to pay the difference to the subsequent defined benefit retirement system or plan or accept a reduced amount of service credits. If the employee elects to pay the
difference, the amount paid shall be added to the employee's accumulated
contribution account balance. If the employee elects to accept a reduced
amount of service credits, the amount of service credits granted shall be
equal to the amount of service credits purchased multiplied by the ratio
of the amount of assets transferred to the amount calculated pursuant to
section 38-922, subsection B, paragraph 2.

C. The transferred employee and the employer shall complete the
terms of the irrevocable election by making payments to ASRS.

D. If the employee is given an election to transfer to another
defined benefit retirement system or plan of this state or to remain with
the employee's current retirement system, on termination of employment the
employee shall elect to have ASRS:

1. Promptly transfer to the subsequent defined benefit retirement
system or plan the PRINCIPAL amount paid by the employee for the purchase
of credited service plus interest as determined by ASRS. If an unfunded
liability is created, subsection B of this section applies. If the
employee fails to elect to have the assets transferred within thirty days
after termination of employment, the employee is deemed to have made an
election as prescribed in paragraph 2.

2. On written request by the employee, promptly return to the
employee the PRINCIPAL amount paid by the employee for the purchase of
credited service plus interest as determined by ASRS. If no application
is received by ASRS within sixty days after termination of employment, ASRS shall issue the payment directly to the employee.

E. If the employee is not given an election to transfer to another
defined benefit retirement system or plan of this state or to remain with
the employee's current retirement system, after termination of employment
the employee may elect within thirty days of termination of employment
to have ASRS promptly transfer to the subsequent defined benefit
retirement system or plan the PRINCIPAL amount paid by the employee for
the purchase of credited service plus interest as determined by ASRS. If
an unfunded liability is created, subsection B of this section applies. If the employee fails to make the election under this
subsection, ASRS shall deem the employee as an inactive member of ASRS.

F. If an employee is given an election to transfer to another
defined benefit retirement system or plan of this state or to remain with
the employee's current retirement system and the employee is receiving a
benefit pursuant to this article based on the employee's own service or
article 2.1 of this chapter, the employee is eligible to transfer to the
retirement system or plan, but the election to transfer terminates the
benefit from ASRS on the effective date of the transfer.

G. If an employee is not given an election to transfer to another
defined benefit retirement system or plan of this state or to remain with
the employee's current retirement system and the employee is receiving a
benefit pursuant to this article based on the employee's own service or
article 2.1 of this chapter, the employee is not eligible to transfer to another retirement system or plan.

Sec. 9. Section 38-757, Arizona Revised Statutes, is amended to read:

38-757. Normal retirement
A. After application on a form prescribed by the director, a member may retire on reaching the member's normal retirement date. Except as provided in section 13-713, a member's right to the member's normal retirement benefit as described in subsection B of this section is nonforfeitable by an employer or ASRS on attainment of the member's normal retirement date.

B. Except as provided in section 38-768, a member who meets the requirements for retirement benefits at normal retirement shall receive a monthly STRAIGHT life annuity that equals the result of paragraph 1 of this subsection multiplied by paragraph 2 of this subsection when those paragraphs are defined as follows:

1. The number of whole and fractional years of credited service times the following:
   (a) 2.10 per-cent PERCENT if the member does not have more than 19.99 years of credited service.
   (b) 2.15 per-cent PERCENT if the member has at least 20.00 years of credited service but not more than 24.99 years of credited service.
   (c) 2.20 per-cent PERCENT if the member has at least 25.00 years of credited service but not more than 29.99 years of credited service.
   (d) 2.30 per-cent PERCENT if the member has at least 30.00 years of credited service.

2. The member's average monthly compensation.

C. Employers shall provide evidence of, and certify to, in a manner provided by the board, the member's average monthly compensation if that information is not already available from the records of ASRS.

Sec. 10. Section 38-758, Arizona Revised Statutes, is amended to read:

38-758. Early retirement
A. A member who has attained age fifty, WHO HAS TERMINATED EMPLOYMENT WITH ALL EMPLOYERS and who has five years of total credited service is eligible to elect, in a form and manner prescribed by the board, to receive a reduced retirement income.

B. For a member whose membership in ASRS commenced before July 1, 2011, the benefit payable to a member electing early retirement shall be determined by reducing the normal retirement benefit computed in accordance with section 38-757 either:

1. At the rate of three per-cent PERCENT per year from age sixty to age sixty-five and five per-cent PERCENT per year from age fifty to age sixty. The reduction in normal retirement benefits pursuant to this paragraph for an eligible member electing early retirement shall be based
on the period from the date of commencement of early retirement benefits
to the member's sixtieth birthday if the member has at least twenty years
of total credited service, sixty-second birthday if the member has at
least ten but less than twenty years of total credited service or
sixty-fifth birthday if the member has at least five but less than ten
years of total credited service.

2. If the sum of a member's age and years of total credited service
equals seventy-seven or more, but is less than eighty, at the rate of
three percent for each unit of one or fraction of one by which
the sum is less than eighty.

C. For a member whose membership in ASRS commenced on or after July
1, 2011, the benefit payable to a member electing early retirement shall
be determined by reducing the normal retirement benefit computed in
accordance with section 38-757 at the rate of three percent per
year from age sixty to age sixty-five and five percent per year
from age fifty to age sixty. The reduction in normal retirement benefits
pursuant to this subsection for an eligible member electing early
retirement shall be based on the period from the date of commencement of
early retirement benefits to the member's sixty-second birthday if the
member has at least ten years of total credited service or sixty-fifth
birthday if the member has at least five but less than ten years of total
credited service.

Sec. 11. Section 38-760, Arizona Revised Statutes, is amended to
read:

38-760. Optional forms of retirement benefits

A. On retirement, members may elect an optional form of retirement
benefit as provided in this section.

B. The optional retirement benefits available under this section
include the following:

1. Joint and survivor LIFe annuity in a reduced amount payable to
the retiring member during life, with the provisions that after the
member's death all, two-thirds or one-half of the retirement income, as
the member elects, shall be continued during the lifetime of the
contingent annuitant designated by the retiring member subject to the
restrictions prescribed in section 38-764. The amount of retirement
income shall be the actuarial equivalent of the retirement income to which
the member would be entitled under normal or early retirement. The
election in a manner prescribed by the board shall name the contingent
annuitant. The election may be revoked at any time before the member's
effective date of retirement. At any time after benefits have commenced,
the member may name a different contingent annuitant or rescind the
election by written notice to the board as follows:

(a) If a different contingent annuitant is named, the LIFe annuity
of the member under the same joint and survivor LIFe annuity option
previously elected shall be adjusted to the actuarial equivalent of the
original annuity, based on the age of the new contingent annuitant. The adjustment shall include all postretirement increases in retirement income that are authorized by law after the member's date of retirement. Payment of this adjusted LIFE annuity shall continue under the provisions of the option previously elected by the member.

(b) If the member rescinds the election, the member shall thereafter receive a straight life annuity equal to what the member would otherwise be entitled to receive if the member had not elected the joint and survivor LIFE annuity option, including all postretirement increases in retirement income that are authorized by law after the date of retirement. The increased payment shall continue during the remainder of the member's lifetime.

(c) If a member whose original date of retirement is before July 1, 2008 rescinds the joint and survivor LIFE annuity option previously elected and receives the straight life annuity pursuant to subdivision (b) of this paragraph, the member may again elect the same joint and survivor LIFE annuity option previously elected subject to the same restrictions prescribed in subdivision (a) of this paragraph.

(d) A member whose original date of retirement is on or after July 1, 2008 may exercise a one-time election to rescind the joint and survivor LIFE annuity option elected by the member if the contingent annuitant dies or ceases to be a contingent annuitant pursuant to the terms of a qualified domestic relations order.

(e) If the member's contingent annuitant is the member's current spouse, the member shall obtain the consent of the contingent annuitant pursuant to section 38-776 before the member names a new contingent annuitant or before the member rescinds the election, except that consent is not required if the rescission is pursuant to subdivision (d) of this paragraph.

2. A period certain and life annuity actuarially reduced with payments for five, ten or fifteen years that are not dependent on the continued lifetime of the member but whose payments continue for the member's lifetime beyond the five, ten or fifteen year period. At the time of electing this option, the member shall name a period certain beneficiary or beneficiaries who are entitled to receive the payments for any portion of the period certain beyond the lifetime of the member. The member may name a different beneficiary at any time. If no beneficiary survives the member, any remaining payments are the property of the member's estate. A member who retires after August 9, 2001 and before July 1, 2008 may rescind the election of a period certain and life annuity. If the member rescinds the election of a period certain and life annuity, the member shall thereafter receive a straight life annuity equal to what the member would otherwise be entitled to receive if the member had not elected the period certain and life annuity option, including all postretirement increases in retirement income that are authorized by law.
after the date of retirement. The increased payment shall continue during
the remainder of the member's lifetime. If the member reverts to a
straight life annuity pursuant to this paragraph, the member may again
elect a period certain and life annuity subject to the same provisions of
the period certain and life annuity previously elected by the member. If
the member's contingent annuitant is the member's current spouse, the
member shall obtain the consent of the contingent annuitant pursuant to
section 38-776 before the member rescinds the election of a period certain
and life annuity or again elects a period certain and life annuity. A
member whose original date of retirement is on or after July 1, 2008 may
exercise a one-time election to rescind the period certain and life
annuity option elected by the member if the beneficiary dies or ceases to
be a beneficiary pursuant to the terms of a qualified domestic relations
order or at the expiration of the member's period certain term.

3. Beginning on July 1, 2002, a lump sum payment equal to not more
than thirty-six months of the member's retirement benefits based on the
actuarial equivalent of the retirement income to which the member would be
entitled under normal or early retirement. The member's benefit shall be
actuarially reduced to provide for the lump sum payment. The lump sum
payment shall be made at the time of retirement. If a member has received
an overpayment pursuant to section 38-765 or 38-797.08, ASRS shall
withhold the overpayment amount plus any required income tax withholding
from the partial lump sum. Any benefit increase granted to a member who
elects a lump sum payment pursuant to this paragraph is subject to the
following conditions:

(a) If the benefit increase is a percentage increase of the
member's retirement benefit, the increase shall be based on the
actuarially reduced retirement benefit of the member.

(b) If the benefit increase is pursuant to section 38-767, the
amount of the member's benefit increase shall be calculated without regard
to the lump sum payment pursuant to this paragraph.

4. Other forms of actuarially reduced optional benefits prescribed
by the board.

C. A member who is married at the time of retirement shall elect
a monthly benefit in the form of a joint and survivor LIFE annuity
pursuant to subsection B, paragraph 1 of this section, and the member's
current spouse shall be the contingent annuitant unless the member's
current spouse consents to a waiver of this requirement pursuant to
section 38-776 or the election would violate another law, an existing
contract or a court order. If the married member does not elect a type of
joint and survivor LIFE annuity for the member's current spouse and the
member's current spouse has not waived the requirements of this
subsection, ASRS shall cancel the member's retirement. The member may
reapply for retirement at any time in a manner established by ASRS.
Sec. 12. Section 38-762, Arizona Revised Statutes, is amended to read:

38-762. Survivor benefits before retirement; definition

A. On the death of any active or inactive member before retirement, the designated beneficiary of the member shall be paid a survivor benefit equal to the sum of both of the following:

1. The member's contribution and interest and the employer's contribution and interest to the defined benefit plan established by this article for credited service that a member earned by working for an employer, plus all contributions and interest made for the purchase of military service, leave without pay or other public service credit. This amount excludes payments made by an employer pursuant to section 38-738, subsection B, paragraph 3, unless the member has made the payment required by section 38-738, subsection B, paragraph 1.

2. The amount of the member's employee account and the member's employer account together with supplemental credits, if any, transferred from the defined contribution program administered by ASRS to the defined benefit program established by this article.

B. Subsection A, paragraphs 1 and 2 of this section shall be accumulated at compound interest at a rate determined by the board through the day of the payment of the benefit.

C. In lieu of a single payment, a designated beneficiary who is eligible for a survivor benefit pursuant to subsection A of this section may elect to receive the actuarial equivalent of the survivor benefit as monthly income for life, if the resulting monthly amount is greater than or equal to the amount determined by the board under section 38-764, subsection E.

D. If a member dies before distribution of the member's benefits commences, the member's entire benefits shall be distributed within the required distribution provisions of section 401(a)(9) of the internal revenue code and the regulations that are issued under that section by the United States secretary of the treasury as prescribed in section 38-775.

E. If a deceased member did not designate a beneficiary or the beneficiary named by a member predeceases the member, ASRS shall pay the member's survivor benefit to the following persons in the following order of priority:

1. The member's surviving spouse.

2. The member's surviving natural or adopted children in equal shares.

3. The member's surviving parents in equal shares.

4. The member's estate.

F. Any payment pursuant to this section is payment for the account of the member or the member's beneficiary and all persons entitled to payment and, to the extent of the payment, is a full and complete
discharge of all liability of the board or ASRS, or both, under or in
close connection with ASRS.

G. For the purposes of this section, "designated beneficiary" means
any individual designated by the member as the member’s beneficiary.

Sec. 13. Section 38-763, Arizona Revised Statutes, is amended to
read:

38-763. Survivor benefits after retirement
A. Except as provided in subsection B of this section, if a member
dies after distribution of retirement benefits commences, ASRS shall
continue to distribute the remaining portion of retirement benefits within
the required distribution provisions of section 401(a)(9) of the internal
revenue code and the regulations that are issued under that section by the
United States secretary of the treasury as prescribed in section 38-775.

B. On the death of a retired member who is receiving benefits, the
estate or beneficiary of the member is entitled to receive at least the
amount of the member’s contribution to ASRS plus interest, as determined
by the director, less the benefits received by the member DISTRIBUTED BY
ASRS. This amount is payable either as a lump sum or at the same periodic
rate in effect at the time of the member’s death, as determined by the
estate or beneficiary.

Sec. 14. Section 38-764, Arizona Revised Statutes, is amended to
read:

38-764. Commencement of retirement; payment of retirement
benefits; lump sum payments
A. Retirement is deemed to commence on a date elected by the
member. That date shall not be earlier than the day following the date of
termination of employment, the date ASRS receives the member's completed
retirement application or the date specified by the member pursuant to
subsection "H" of this section.

B. Except as provided in subsection C of this section, All
retirement benefits:
1. Are normally payable in monthly installments beginning on the
commencement of retirement as prescribed in subsection A of this section.
2. Continue to and include the first day of the month in which
death occurs or continue until the date of their cessation in accordance
with any optional method of payment that may have been elected.

C. In the case of incapacity of a retired member or contingent
annuitant, or in the case of any other emergency, as determined by the
board, the board may make the payment to or on behalf of the retired
member or contingent annuitant or to another person or persons the board
determines to be lawfully entitled to receive payment. The payment is
payment for the account of the retired member or contingent annuitant and
all persons entitled to payment and, to the extent of the payment, is a
full and complete discharge of all liability of the board or ASRS, or
both, under or in connection with ASRS.
D. Except as provided in subsection D of this section, at
the request of a retired member, a retired member's guardian or a court
appointed conservator, the board may pay any increase in retirement
benefits or the entire retirement benefit in a lump sum payment based on
the actuarial present value of the benefit or the increase in the benefit
if the payment of the benefits would result in ineligibility, reduction or
elimination of social service programs provided to the member by this
state, its political subdivisions or the federal government.

e. The board may pay the entire retirement benefit in a lump
sum pursuant to subsection C of this section only if continued
membership in ASRS will result in additional requests for lump sum
payments based on cost of living adjustments or the establishment of
minimum benefit awards.

f. If any benefit that is payable as a series of periodic
payments amounts to less than a threshold amount determined by the board,
the board, in its sole discretion and based on uniform rules it
establishes, may order the amount to be paid in a lump sum. A member who
receives a lump sum payment pursuant to this subsection remains a member
of ASRS and is eligible for the coverage provided pursuant to section
38-782 and the payment pursuant to section 38-783 but is not eligible
for a benefit increase pursuant to section 38-767.

g. All distributions of retirement benefits to a member shall
be distributed within the required distribution provisions of section
401(a)(9) of the internal revenue code and the regulations that are issued
under that section by the United States secretary of the treasury as
prescribed in section 38-775.

h. A member may elect to cancel the effective date of
retirement within thirty days of retirement or before the member’s receipt
of retirement benefits, whichever is later.

i. A member who attains a normal retirement date may retire at
any time without terminating employment if the member is employed for less
than the hours required for active membership pursuant to section 38-711,
paragraph 23, subdivision (b).

Sec. 15. Section 38-766, Arizona Revised Statutes, is amended to
read:

38-766. Retired members; return to work; suspension of
benefits; exceptions; maximum benefit

A. A retired member who is engaged to work by an employer for at
least twenty weeks in each fiscal year and at least twenty hours per week
resumes active membership in ASRS. ASRS shall suspend payment of the
member’s retirement benefits until the member either:

1. Terminates employment and files an application for reretirement
on a form that is approved by the director.

2. Attains a normal retirement date, no longer meets the
requirements for active membership pursuant to this subsection and files
an application for reretirement on a form that is approved by the director.

B. A retired member whose retirement benefits have been suspended pursuant to subsection A of this section shall repay ASRS any retirement benefits received by the member from the date ASRS notifies the member in writing that the member's employment resulted in active membership in ASRS pursuant to subsection A of this section, from the date ASRS determines that the member knew or should have known that the member's employment resulted in membership in ASRS pursuant to subsection A of this section or for any other period that approximates the duration of the violation, as determined by ASRS.

C. A member who satisfies subsection A, paragraph 1 or 2 of this section is entitled to receive an annuity recomputed to include the additional compensation and credited service. However, the recomputed annuity shall be in the original optional form chosen pursuant to section 38-760, with the same beneficiary, if applicable, as when the member first retired, unless the member has resumed active membership for at least sixty consecutive months. A member who retired under a provision of law allowing increased benefits if the retirement occurred during a specific period of time and who subsequently becomes an employee under ASRS shall not retain the increased benefits under the prior law when benefits are computed for the member's most recent retirement.

D. Notwithstanding subsection A of this section, ASRS shall not suspend the payment of retirement benefits if a retired member begins or returns to employment with an employer in a position that satisfies all of the following:

1. Results in a true change in position, job duties and job title from the position occupied by the member before ASRS retirement.
2. Either:
   (a) Requires participation in another state retirement system, plan or program and the retired member makes contributions or waives participation pursuant to section 38-804, subsection A.
   (b) Permits a member to elect to participate in another state retirement system, plan or program and the member makes such an election.
3. Does not require membership in the defined benefit plan established by this article.

E. A retired member who returns to work pursuant to subsection D of this section does not accrue credited service, member service as provided in section 15-1628, subsection B, paragraph 4, additional account balances, retirement benefits or long-term disability program benefits pursuant to article 2.1 of this chapter for the period the retired member returns to work. The period the retired member returns to work is not eligible for purchase under section 38-743 or 38-744.
F. Section 38-769, subsection L applies when determining the maximum benefit that may be paid to a retired member who resumes active membership and subsequently retires.

G. An employer that engaged the retired member to work pursuant to this section shall pay to ASRS an amount equal to the rate established by the actuary pursuant to section 38-766.02, subsection B for the period starting with the first day the retired member began working after retirement through the earlier of:

1. The date the member terminates employment.

2. The date the employer begins payment for that member pursuant to section 38-766.02.

3. The date the member resumes active membership pursuant to subsection A of this section and the member and employer are required to make contributions pursuant to section 38-736, 38-737 or 38-738.

Sec. 16. Section 38-768, Arizona Revised Statutes, is amended to read:

38-768. Minimum retirement benefit

A. Notwithstanding any other provision of this article, a retired member or beneficiary who is entitled to a benefit under this article shall receive at least a minimum monthly benefit that is computed pursuant to subsection B of this section if the retired member or beneficiary is at least seventy-five years of age and if the retired member or beneficiary is any of the following:

1. Retired from ASRS with at least twenty years of credited service.

2. A beneficiary of ASRS who is receiving benefits derived from a retired member who had at least twenty years of credited service.

3. A member with at least twenty years of service who irrevocably revokes the receipt of benefits determined on the basis of membership in the defined contribution program administered by ASRS and who elects to receive benefits under this article.

4. A beneficiary who is receiving benefits derived from a retired member who had at least twenty years of service, who irrevocably revoked the receipt of benefits determined on the basis of membership in the defined contribution program administered by ASRS and who elected to receive benefits under this article.

B. The minimum monthly benefit provided by subsection A of this section:

1. For retired members, is six hundred dollars $600.

2. For beneficiaries, is the amount determined by paragraph 1 of this subsection and reduced in accordance with the option chosen by multiplying the amount determined by paragraph 1 of this subsection by the actuarial figure for the option chosen and by the percentage of the option chosen.
C. If the minimum monthly benefit pursuant to subsections A and B of this section is more than the retired member's or beneficiary's current monthly benefit, the retired member or beneficiary is eligible to receive a monthly benefit equal to the minimum benefit. If the retired member's or beneficiary's current monthly benefit is more than the minimum benefit, the retired member's or beneficiary's benefit remains the same.

D. A member who receives a lump sum payment pursuant to section 38-764, subsection D is not eligible for a minimum benefit as provided by this section.

Sec. 17. Section 38-770, Arizona Revised Statutes, is amended to read:

38-770. Eligible rollover distribution; definitions

A. Notwithstanding any other provision of this article that would limit a distributee's election under this section, a distributee may elect, at any time and in the manner prescribed by the board, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

B. An eligible rollover distribution may commence less than thirty days after the notice required under section 402(f) of the internal revenue code is given to the distributee, provided that both:

1. ASRS clearly informs the distributee that the distributee has a right to a period of at least thirty days after receiving the notice to consider the decision of whether or not to elect a direct rollover.

2. The distributee, after receiving the notice, affirmatively elects a distribution.

C. In addition to the other elections permitted in this section, effective for distributions made from and after December 31, 2006, a designated beneficiary of a member who is not the member's surviving spouse may elect, at any time and in the manner prescribed by ASRS, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan described in subsection D, paragraph 3, subdivisions (a) and (b) of this section. For the purposes of this subsection, "designated beneficiary" has the same meaning prescribed in section 38-775.

D. For the purposes of this section:

1. "Direct rollover" means a payment by ASRS to the eligible retirement plan specified by the distributee.

2. "Distributee" means a member, a member's surviving spouse or a member's spouse or former spouse who is the alternate payee under an acceptable domestic relations order as defined in section 38-773.

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

   (a) An individual retirement account described in section 408(a) of the internal revenue code.
(b) An individual retirement annuity described in section 408(b) of the internal revenue code.
(c) An annuity plan described in section 403(a) of the internal revenue code.
(d) A qualified trust described in section 401(a) of the internal revenue code.
(e) An annuity contract described in section 403(b) of the internal revenue code.
(f) An eligible deferred compensation plan described in section 457(b) of the internal revenue code that is maintained by a state, a political subdivision of a state or any agency or instrumentality of a state or a political subdivision of a state and that agrees to separately account for amounts transferred into the eligible deferred compensation plan from ASRS.
(g) Beginning January 1, 2008, a Roth individual retirement account described in section 408A of the internal revenue code.

For distributions made after December 18, 2015, a SIMPLE retirement account that satisfies the requirements of section 408(p) of the internal revenue code.

4. "Eligible rollover distribution" means distribution of all or any portion of the balance to the credit of the distributee but does not include any of the following:
   (a) Any distribution that is one of a series of substantially equal periodic payments made not less frequently than annually for the life or life expectancy of the member or the joint lives or joint life expectancies of the member and the member's designated beneficiary or for a specified period of ten years or more.
   (b) Any distribution to the extent the distribution is required under section 401(a)(9) of the internal revenue code.
   (c) Except as provided in this paragraph, the portion of any distribution that is not includable in gross income. A distribution does not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions that are not includable in gross income if the portion is paid only to an individual retirement account or annuity described in section 408(a) or 408(b) of the internal revenue code, to a qualified plan described in section 401(a) of the internal revenue code or an annuity contract described in section 403(b) of the internal revenue code that agrees to separately account for amounts so transferred, and earnings on those amounts, including separately accounting for the portion of the distribution that is includable in gross income and the portion of the distribution that is not includable in gross income.
   (d) Any distribution that is made due to hardship of the member.
Sec. 18. Section 38-775, Arizona Revised Statutes, is amended to read:

38-775. Required distributions; definitions

A. This section applies for purposes of determining required minimum distributions for calendar years beginning on and after January 1, 2006. In applying the requirements of this section, the following operational provisions govern:

1. Except as provided in the following sentence, the requirements of this section take precedence over any inconsistent provisions of this article and article 2.1 of this chapter. The rules of this section shall not restrict any form, calculation, adjustment or payment of benefit provided under this article in effect on April 17, 2002, if the form, calculation, adjustment or payment of benefit satisfied section 401(a)(9) of the internal revenue code based on a reasonable and good faith interpretation of that section.

2. All distributions required under this section shall be determined and made pursuant to section 401(a)(9) of the internal revenue code and the regulations that are issued under that section by the United States secretary of the treasury.

3. Notwithstanding this section, other than paragraph 2 of this subsection, distributions may be made under a designation made before January 1, 1984, pursuant to section 242(b)(2) of the tax equity and fiscal responsibility act of 1982 (P.L. 97-248) and the provisions of this article that relate to that section.

B. The member's entire interest shall be distributed, or begin to be distributed, to the member not later than the member's required beginning date.

C. If the member dies before distributions begin, the member's entire interest shall be distributed, or begin to be distributed, not later than as follows:

1. If the member's surviving spouse is the member's sole designated beneficiary, except as provided in paragraph 6-4 of this subsection, distributions to the surviving spouse shall begin by December 31 of the calendar year immediately following the calendar year in which the member died, or by December 31 of the calendar year in which the member would have attained seventy-two years of age, if later.

2. If the member's surviving spouse is not the member's sole designated beneficiary, except as provided in paragraph 6-4 of this subsection, distributions to the designated beneficiary shall begin by December 31 of the calendar year immediately following the calendar year in which the member died.

3. If there is no designated beneficiary as of September 30 of the year following the year of the member's death, the member's entire interest shall be distributed by December 31 of the calendar year containing the fifth anniversary of the member's death.
4. If the member's surviving spouse is the member's sole designated beneficiary and the surviving spouse dies after the member but before distributions to the surviving spouse begin, this subsection, other than paragraph 1 of this subsection, applies as if the surviving spouse were the member.

5. For purposes of this subsection and subsection G of this section, distributions are considered to begin on the member's required beginning date or, if paragraph 4 of this subsection applies, the date distributions are required to begin to the surviving spouse under paragraph 1 of this subsection. If annuity payments irrevocably commence to the member before the member's required beginning date, or to the member's surviving spouse before the date distributions are required to begin to the surviving spouse under paragraph 1 of this subsection, the date distributions are considered to begin is the date distributions actually commence.

6. If the member dies before distributions begin and there is a designated beneficiary, distribution to the designated beneficiary is not required to begin by the date prescribed in paragraph 1 or 2 of this subsection as long as the member's entire interest will be distributed to the designated beneficiary by December 31 of the calendar year containing the fifth anniversary of the member's death. If the member's surviving spouse is the member's sole designated beneficiary and the surviving spouse dies after the member but before distributions to either the member or the surviving spouse begin, this paragraph applies as if the surviving spouse were the member.

D. Unless the member's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution, calendar year distributions shall be made pursuant to subsections E, F and G of this section. If the member's interest is distributed in the form of an annuity purchased from an insurance company, distributions shall be made pursuant to the requirements of section 401(a)(9) of the internal revenue code and the regulations that are issued under that section by the United States secretary of the treasury. Any part of the member's interest that is in the form of an individual account described in section 414(k) of the internal revenue code shall be distributed in a manner satisfying the requirements of section 401(a)(9) of the internal revenue code and the regulations that are issued under that section by the United States secretary of the treasury that apply to individual accounts.

E. The following provisions govern the determination of the amount to be distributed each calendar year:

1. If the member's interest is paid in the form of annuity distributions, payments under the annuity shall satisfy the following requirements:
(a) The annuity distributions shall be paid in periodic payments made at intervals not longer than one year.

(b) The distribution period shall be over a life or lives or over a period certain not longer than the period described in subsection F or G of this section.

(c) Once payments have begun over a period certain, the period certain shall not be changed even if the period certain is shorter than the maximum allowed.

(d) Payments shall either be nonincreasing or increase only as follows:

   (i) By an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the bureau of labor statistics.

   (ii) To the extent of the reduction in the amount of the member's payments to provide for a survivor benefit on death, but only if the beneficiary whose life was being used to determine the distribution period described in subsection F of this section dies or is no longer the member's beneficiary pursuant to a qualified domestic relations order within the meaning of section 414(p) of the internal revenue code.

   (iii) To provide cash refunds of employee contributions on the member's death.

   (iv) To pay increased benefits that result from a plan amendment.

2. The amount that must be distributed on or before the member's required beginning date or, if the member dies before distributions begin, the date distributions are required to begin under subsection C, paragraph 1 or 2 of this section, is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, such as bimonthly, monthly, semiannually or annually. All of the member's benefit accruals as of the last day of the first distribution calendar year shall be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the member's required beginning date.

3. Any additional benefits accruing to the member in a calendar year after the first distribution calendar year shall be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which the amount accrues.

F. The following provisions govern annuity distributions that commence during a member's lifetime:

1. If the member's interest is being distributed in the form of a joint and survivor annuity for the joint lives of the member and a nonspouse beneficiary, annuity payments to be made on or after the member's required beginning date to the designated beneficiary after the member's death must not at any time exceed the applicable percentage of
the annuity payment for the period that would have been payable to the
member using the table set forth in question and answer number 2 of
section 1.401(a)(9)-6 of the regulations issued by the United States
secretary of the treasury. If the form of distribution combines a joint
and survivor annuity for the joint lives of the member and a nonspouse
beneficiary and a period certain annuity, the requirement in the preceding
sentence applies to annuity payments to be made to the designated
beneficiary after the expiration of the period certain.

2. Unless the member's spouse is the sole designated beneficiary
and the form of distribution is a period certain and no life annuity, the
period certain for an annuity distribution commencing during the member's
lifetime may not exceed the applicable distribution period for the member
under the uniform lifetime table prescribed in section 1.401(a)(9)-9 of
the regulations issued by the United States secretary of the treasury for
the calendar year that contains the annuity starting date. If the annuity
starting date precedes the year in which the member reaches seventy years
of age, the applicable distribution period for the member is the
distribution period for seventy years of age under the uniform lifetime
table set forth in section 1.401(a)(9)-9 of the regulations issued by the
United States secretary of the treasury plus the excess of seventy over
the age of the member as of the member's birthday in the year that
contains the annuity starting date. If the member's spouse is the
member's sole designated beneficiary and the form of distribution is a
period certain and no life annuity, the period certain may not exceed the
longer of the member's applicable distribution period, as determined under
this paragraph, or the joint life and last survivor expectancy of the
member and the member's spouse as determined under the joint and last
survivor table prescribed in section 1.401(a)(9)-9 of the regulations
issued by the United States secretary of the treasury, using the member's
and spouse's attained ages as of the member's and spouse's birthdays in
the calendar year that contains the annuity starting date.

G. The following provisions govern minimum distributions if a
member dies before the date distributions begin:

1. Except as provided in subsection C, paragraph 4 of this
section, if the member dies before the date distribution of the member's
interest begins and there is a designated beneficiary, the member's entire
interest shall be distributed, beginning not later than the time
prescribed in subsection C, paragraph 1 or 2 of this section, over the
life of the designated beneficiary or over a period certain not exceeding
either of the following:

(a) Unless the annuity starting date is before the first
distribution calendar year, the life expectancy of the designated
beneficiary determined using the beneficiary's age as of the beneficiary's
birthday in the calendar year immediately following the calendar year of
the member's death.
(b) If the annuity starting date is before the first distribution calendar year, the life expectancy of the designated beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year that contains the annuity starting date.

2. If the member dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the member's death, distribution of the member's entire interest shall be completed by December 31 of the calendar year containing the fifth anniversary of the member's death.

3. If the member dies before the date distribution of the member's interest begins, the member's surviving spouse is the member's sole designated beneficiary and the surviving spouse dies before distributions to the surviving spouse begin, this subsection applies as if the surviving spouse were the member, except that the time by which distributions must begin shall be determined without regard to subsection C, paragraph 1 of this section.

H. If a member dies after the member's required beginning date and the member had not commenced distribution of retirement benefits, ASRS shall treat the member as having commenced distribution of retirement benefits on the member's required beginning date. Notwithstanding section 38-776, ASRS shall determine the member's retirement benefit as a straight annuity as of the date of the member's required beginning date. The member's estate is entitled to the member's benefit payments and any remaining member contributions on account shall be disbursed pursuant to section 38-763.

I. For the purposes of this section:

1. "Designated beneficiary" means the individual who is designated as the member's beneficiary to receive benefits under this article and is the designated beneficiary under section 401(a)(9) of the internal revenue code and question and answer number 1 of section 1.401(a)(9)-4 of the regulations issued by the United States secretary of the treasury.

2. "Distribution calendar year" means a calendar year for which a minimum distribution is required. For distributions beginning before the member's death, the first distribution calendar year is the calendar year immediately preceding the calendar year that contains the member's required beginning date. For distributions beginning after the member's death, the first distribution calendar year is the calendar year in which distributions are required to begin pursuant to subsection C of this section.

3. "Life expectancy" means life expectancy as computed by use of the single life table in section 1.401(a)(9)-9 of the regulations issued by the United States secretary of the treasury.

4. "Required beginning date" means the date payment of a member's benefits shall commence in accordance with section 401(a)(9)(C) of the internal revenue code.
Sec. 19.  Section 38-781, Arizona Revised Statutes, is amended to read:

38-781.  Supplemental employee deferral plan; public employees; administration; immunity; definitions

A.  One or more supplemental employee deferral plans may be established pursuant to this section to provide public employees an opportunity to save additional tax-deferred monies for retirement.

B.  ASRS may establish, administer, manage and operate supplemental employee deferral plans for employers.

C.  ASRS may:

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

2.  Administer the plans through contracts with multiple vendors.

3.  Perform all acts, whether or not expressly authorized, that it deems necessary and proper for the operation and protection of the plans.

4.  For the purposes of this section, enter into intergovernmental agreements pursuant to title 11, chapter 7, article 3.

D.  A supplemental employee deferral plan is in addition to and does not replace an employee's existing state defined benefit retirement plan.

E.  If an employer, including this state, elects to participate in a supplemental employee deferral plan, any employee of the employer who meets the eligibility requirements that are prescribed by ASRS for participation in the supplemental employee deferral plan may participate in the supplemental employee deferral plan.

F.  Notwithstanding subsection E of this section, on or after July 1, 2022, an employee of an employer WHO IS NOT ELIGIBLE TO PARTICIPATE IN A PUBLIC RETIREMENT SYSTEM ESTABLISHED BY ARTICLE 3, 3.1, 4, 4.1 OR 6 OF THIS CHAPTER may elect to participate in a supplemental employee deferral plan if the employer meets the eligibility requirements that are prescribed by ASRS for participation in the supplemental employee deferral plan.

G.  Employee participation in a supplemental employee deferral plan requires the participant's employer to make salary reductions from the participant's compensation at no cost to the employee, ASRS or any vendor retained by ASRS and contribute such salary reductions to the plan. An employer may make employer contributions to the supplemental employee deferral plan if the plan allows. The employer shall submit any reports required by the plan. If the participant is an active member, any compensation deferred by an employee under a plan shall be included as regular compensation or compensation for the purpose of computing the retirement and pension benefits provided in this article earned by any employee participating in the plan.

H.  Employee contributions and earnings on employee contributions are immediately vested. Employer contributions, if any, and the earnings on employer contributions shall vest according to the schedule established...
by the employer, if the employer completes and submits a schedule to ASRS. If the employer does not complete and submit a schedule to ASRS, employer contributions, if any, and the earnings on employer contributions shall vest according to the default schedule established by ASRS.

I. Notwithstanding any other law, this state and its officers and employees, the board and ASRS are immune from civil liability and are not subject to suit directly or by way of contribution for any act or omission resulting in any damage or injury arising out of the supplemental employee deferral plan.

J. For the purposes of this section:

1. "State" means this state, including any department, office, board, commission, agency or university, but does not mean any school district or community college district.

2. "Supplemental employee deferral plan" means a tax deferred annuity described in section 403(b) of the internal revenue code, including a custodial account described in 403(b)(7) of the internal revenue code, and an eligible deferred compensation plan described in section 457(b) of the internal revenue code. A supplemental employee deferral plan shall comply with all applicable provisions of the section of the internal revenue code under which such plan is adopted and maintained.

Sec. 20. Section 38-797.06, Arizona Revised Statutes, is amended to read:

38-797.06. Contribution rate; annual report

A. The board shall select an actuary to determine required employer contributions on an annual basis. The actuary shall be a fellow of the society of actuaries.

B. Employer contributions shall be a percentage of compensation of all employees of the employers WHO MEET THE ELIGIBILITY REQUIREMENTS OF ARTICLE 2 OF THIS CHAPTER, as the ASRS actuary determines pursuant to this section. The actuary shall make this determination in an annual valuation performed as of June 30. The valuation as of June 30 of a calendar year shall determine the percentage to be applied to compensation for the fiscal year beginning July 1 of the following calendar year. The actuary shall determine the total employer contribution using an actuarial cost method consistent with generally accepted actuarial standards. The total employer contributions shall be equal to the employer normal cost plus the amount required to amortize the past service funding requirement over a period consistent with generally accepted actuarial standards.

C. All contributions made by the employer and allocated to the LTD trust fund established by section 38-797.02 are irrevocable and shall be used as benefits under this article or to pay expenses of the LTD program.

D. ASRS shall provide a preliminary report on or before November 30 of the valuation year and a final report on or before January 15 of the following year to the governor, the speaker of the house of
representatives and the president of the senate on the contribution rate for the ensuing fiscal year.

Sec. 21. Section 38-797.07, Arizona Revised Statutes, is amended to read:

38-797.07. LTD program benefits; limitations; definitions
A. The LTD program is subject to the following limitations:
1. Except as provided in paragraph 9 of this subsection, monthly LTD program benefits shall not exceed two-thirds of a member's monthly compensation, reduced by:
   (a) For a member whose disability commences before July 1, 2008, sixty-four percent of social security disability benefits that the member and the member's dependents are eligible to receive.
   (b) For a member whose disability commences on or after July 1, 2008, eighty-five percent of social security disability benefits that the member and the member's dependents are eligible to receive, but not including:
      (i) The amount of attorney fees approved pursuant to social security administration rules and reasonable documented costs paid to an attorney to secure that disability benefit.
      (ii) Any cost-of-living adjustments that are granted after the member commences benefits under this section.
   (c) For a member whose disability commences before July 1, 2008, eighty-three percent of social security retirement benefits that the member is eligible to receive.
   (d) For a member whose disability commences on or after July 1, 2008, eighty-five percent of social security retirement benefits that the member is eligible to receive, but not including any cost-of-living adjustments that are granted after the member commences benefits under this section.
   (e) All of any workers' compensation benefits.
   (f) All of any payments for a veteran's disability if both of the following apply:
      (i) The veteran's disability payment is for the same condition or a condition related to the condition currently causing the member's disability.
      (ii) The veteran's disability is due to, or a result of, service in the armed forces of the United States.
   (g) All of any other benefits by reason of employment that are financed partly or wholly by an employer, including payments for sick leave. This subdivision does not include any retirement benefit that is received by the member pursuant to a state retirement system or plan other than ASRS.
   (h) Fifty percent of any salary, wages, commissions or other employment-related pay that the member receives or is entitled to receive from any gainful employment in which the member actually engages.
2. For a member whose disability commences on or after August 2, 2012, a member's monthly income from the monthly LTD program benefits and sources listed in paragraph 1 of this subsection shall not exceed one hundred percent of the member's monthly compensation at the time disability commences. ASRS shall offset the member's monthly LTD program benefits by the amount necessary to reduce the member's total monthly income to meet the limit prescribed in this paragraph.

3. Monthly LTD program benefits are not payable until a member has had a disability for a period of six consecutive months.

4. Monthly LTD program benefits are not payable to a member who files an initial claim for disability more than twelve months after the date of the member's date of disability unless the member demonstrates to ASRS good cause for not filing the initial claim within twelve months after the date of disability.

5. Monthly LTD program benefits are not payable to a member who is receiving retirement benefits from ASRS, unless the retirement benefits are required pursuant to section 38-775.

6. Monthly LTD program benefits are not payable to a member whose disability is due to, or a result of, any of the following:
   (a) An intentionally self-inflicted injury.
   (b) War, whether declared or not.
   (c) An injury incurred while engaged in a felonious criminal act or enterprise.
   (d) For a member whose most recent membership in the LTD program commences before July 1, 2008, an injury or sickness for which the member received medical treatment within three months before the date of the member's coverage under the LTD program. This subdivision does not apply to a member who either:
      (i) Has been an active member of an employer for twelve continuous months.
      (ii) Is employed by an employer before July 1, 1988.
   (e) For a member whose most recent membership in the LTD program commences on or after July 1, 2008, an injury or sickness for which the member received medical treatment within six months before the date of the member's coverage under the LTD program. This subdivision does not apply to a member who has been an active member of an employer for twelve continuous months.

7. Monthly LTD program benefits cease to be payable to a member at the earliest of the following:
   (a) The date the member ceases to have a disability.
   (b) The date the member:
      (i) Ceases to be under the direct care of a doctor.
      (ii) Refuses to undergo any medical examination or refuses to participate in any work rehabilitation program for which the member is reasonably qualified by education, training or experience and that is
requested by the insurance company or claims administrator that is
selected by the board to administer the LTD program.

(c) The date the member withdraws employee contributions with
interest and ceases to be a member.

(d) The later of the following:

(i) The member’s normal retirement date.

(ii) The month following sixty months of payments if disability
occurs before sixty-five years of age.

(iii) The month following attainment of seventy years of age if
disability occurs at sixty-five years of age or after but before
sixty-nine years of age.

(iv) The month following twelve months of payments if disability
occurs at or after sixty-nine years of age.

(e) If the member is convicted of a criminal offense and sentenced
to more than six months in a jail, prison or other penal institution, the
first day of the month following the first thirty continuous days of the
member's confinement for the remainder of the confinement.

8. Monthly LTD program benefits are payable only for disabilities
that commence on or after July 1, 1988.

9. Except as provided in paragraph 2 of this subsection, the
minimum benefit for a member who is entitled to receive monthly LTD
program benefits is $50 per month.

10. Members are eligible to receive the LTD program benefits and
payments described in paragraph 1 of this subsection, and the reductions
provided by paragraph 1 of this subsection apply even though the social
security benefits are not actually paid as follows:

(a) For primary and dependent social security benefits, the members
are eligible for the social security benefits until the social security
benefits are actually awarded, or if the social security benefits are
denied, until the member pursues the social security appeal process
through a hearing before a social security administrative law judge or
until the insurance company or claims administrator determines that the
member is not eligible for social security benefits.

(b) For benefits and payments from any other source provided in
paragraph 1 of this subsection, the members are eligible for the benefits
if it is reasonable to believe that those benefits will be paid on proper
completion of the claim or would have been paid except for the failure of
the member to pursue the claim in time.

11. A member shall be considered to have a disability if based on
objective medical evidence:

(a) During the first thirty months of a period of disability, the
member is unable to perform one or more duties of the occupation held by
the member when the member developed a disability.
(b) For a member who has received monthly LTD program benefits for twenty-four months within a five-year period, the member is unable to perform any work for compensation or gain for which the member is reasonably qualified by education, training or experience in an amount at least equal to the scheduled LTD program benefits prescribed in paragraph 1 of this subsection.

B. A member who is eligible pursuant to article 2 of this chapter and who receives monthly LTD program benefits is entitled to receive service credit pursuant to article 2 of this chapter from the time disability commences until LTD program benefits cease to be payable, except that for a member who receives monthly LTD program benefits on or after June 30, 1999, the number of years of service credited to the member's retirement account during the period the member receives ASRS DISBURSES LTD program benefit payments shall not cause the member's total credited service for retirement benefits to exceed the greater of thirty years or the total years of service credited to the member's retirement account on the commencement of disability.

C. This section does not prohibit a member whose disability has been established to the satisfaction of the board from relying on treatment by prayer through spiritual means in accordance with the tenets and practice of a recognized church, religious denomination or Native American traditional medicine by a duly accredited practitioner of the church, denomination or Native American traditional medicine without suffering reduction or suspension of the member's monthly LTD program benefits.

D. ASRS may suspend or terminate benefits under this article if a member fails to provide information, data, paperwork or other materials that are requested by ASRS or the insurance company or claims administrator that is selected by the board to administer the LTD program. ASRS or its contracted administrator may investigate information that indicates a member may have falsified information or records related to LTD program eligibility or benefits or may not otherwise meet the requirements of LTD program eligibility. In connection with an investigation involving the LTD program, ASRS or its contracted administrator may collect and examine any statement or evidence, or may authorize a third party to collect and examine any statement or evidence, that relates to a member falsifying information or records related to LTD program eligibility or benefits. If the member provides the information requested, ASRS shall retroactively reinstate the benefits or claim for which the member qualifies under this article.

E. For the purposes of this section:

1. "Objective medical evidence" means evidence that established facts and conditions, as perceived without distortion by personal feelings, prejudices or interpretations, and includes x-rays, quantitative
tests, laboratory findings, data, records, reports from the attending physician and reports from a consulting physician, as applicable.

2. "Received medical treatment" means that the member consulted with or received the advice of a licensed medical or dental practitioner, including advice given during a routine examination, and it includes situations in which the member received medical or dental care, treatment or services, including the taking of drugs, medication, insulin or similar substances.


Sec. 22. Repeal
Section 38-797.09, Arizona Revised Statutes, is repealed.

Sec. 23. Section 38-921, Arizona Revised Statutes, is amended to read:

38-921. **Transfer of retirement service credits from one retirement system or plan to another retirement system or plan in this state; definitions**

A. An active or inactive member of a state retirement system or plan, including the retirement system provided for in article 2 of this chapter, the elected officials' retirement plan provided for in article 3 of this chapter, the public safety personnel retirement system provided for in article 4 of this chapter or the corrections officer retirement plan provided for in article 6 of this chapter, may transfer service credits from one system or plan to the member's current or former system or plan pursuant to section 38-922 if all of the following conditions are met:

1. The board governing the retirement system or plan from which the service credits are being transferred mutually agrees with the board governing the retirement system or plan to which the service credits are being transferred regarding the terms of the transfer.

2. The transfer does not cause either the retirement system or plan to which the transfer is made or the retirement system or plan from which the transfer is made to incur any unfunded accrued liabilities as a result of the transfer.

3. The member initiates the transfer by making written application to the governing board of the retirement system or plan to which the member is contributing OR HAS CONTRIBUTED.

B. For the purposes of this section:

1. "Active member" means a member who satisfies the eligibility criteria of the state retirement system or plan and who is currently making member contributions to or receiving credited service from the state retirement system or plan.
2. "Inactive member" means a member of the state retirement system or plan who previously made contributions to the state retirement system or plan and who satisfies each of the following:

(a) Has not retired.
(b) Is not eligible for active membership in the state retirement system or plan.
(c) Is not currently making contributions to the state retirement system or plan.
(d) Has not withdrawn contributions from the state retirement system or plan.

APPROVED BY THE GOVERNOR APRIL 14, 2022.