

House Engrossed Senate Bill

~~ASRS; employer contributions; prepayment~~  
(now: ASRS; lease-purchase agreements; contributions; prepayment)

State of Arizona  
Senate  
Fifty-fifth Legislature  
Second Regular Session  
2022

# SENATE BILL 1082

AN ACT

AMENDING SECTION 38-737, ARIZONA REVISED STATUTES; RELATING TO THE ARIZONA  
STATE RETIREMENT SYSTEM.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 38-737, Arizona Revised Statutes, is amended to  
3 read:

4 38-737. Employer contributions; prepayment; definitions

5 A. Employer contributions shall be a percentage of compensation of  
6 all employees of the employers, excluding the compensation of those  
7 employees who are members of the defined contribution program administered  
8 by ASRS, as determined by the ASRS actuary pursuant to this section for  
9 June 30 of the fiscal year immediately preceding the preceding fiscal  
10 year, except that beginning with fiscal year 2001-2002 the contribution  
11 rate shall not be less than two percent of compensation of all employees  
12 of the employers. Beginning July 1, 2011 through June 29, 2016, the total  
13 employer contribution shall be determined on the projected unit credit  
14 method. Beginning June 30, 2016, the board shall determine the actuarial  
15 cost method pursuant to section 38-714. The total employer contributions  
16 shall be equal to the employer normal cost plus the amount required to  
17 amortize the past service funding requirement over a period that is  
18 determined by the board and consistent with generally accepted actuarial  
19 standards. In determining the past service funding period, the board  
20 shall seek to improve the funded status whenever the ASRS trust fund is  
21 less than one hundred percent funded.

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

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

34 D. NOTWITHSTANDING ANY OTHER PROVISION OF THIS ARTICLE, AN EMPLOYER  
35 MAY PREPAY THE EMPLOYER'S 401(a) PENSION CONTRIBUTIONS DIRECTLY TO ASRS  
36 ACCORDING TO A WRITTEN AGREEMENT BETWEEN THE EMPLOYER AND ASRS AS FOLLOWS:

37 1. 401(a) PENSION CONTRIBUTIONS THAT THE EMPLOYER PREPAYS ACCORDING  
38 TO THIS SUBSECTION MAY BE DEPOSITED, AS DETERMINED BY THE EMPLOYER AND  
39 MANAGED BY ASRS, DIRECTLY IN EITHER THE ASRS TRUST FUND ESTABLISHED BY  
40 SECTION 38-712 OR A SECTION 115 TRUST.

41 2. ASRS SHALL DETERMINE THE FOLLOWING OPTIONS AVAILABLE TO THE  
42 EMPLOYER:

43 (a) THE AMORTIZATION TIME PERIODS.

44 (b) THE FREQUENCY AND DATES THAT PREPAYMENTS CAN BE MADE.

1 (c) THE MAXIMUM AND MINIMUM AMOUNTS OF 401(a) PENSION CONTRIBUTIONS  
2 THAT THE EMPLOYER CAN PREPAY.

3 (d) ANY OTHER OPTIONS OR OBLIGATIONS THAT THE EMPLOYER MAY HAVE  
4 WHEN ENTERING INTO THIS WRITTEN AGREEMENT.

5 3. THE EARNINGS ACCRUAL RATE SHALL BE THE ASRS TOTAL 401(a) PENSION  
6 FUND RATE OF RETURN.

7 4. THE 401(a) PENSION CONTRIBUTIONS THE EMPLOYER PREPAYS AND THE  
8 ACCRUED EARNINGS SHALL BE MANAGED AT THE DISCRETION OF ASRS SUBJECT TO  
9 SECTION 38-718.

10 5. 401(a) PENSION CONTRIBUTIONS THAT THE EMPLOYER PREPAYS AND  
11 ACCRUED EARNINGS MAY BE USED SOLELY TO REDUCE THE EMPLOYER'S FUTURE 401(a)  
12 PENSION CONTRIBUTIONS AS REQUIRED FROM THE EMPLOYER PURSUANT TO THIS  
13 SECTION AND SECTION 38-735.

14 6. THE EMPLOYER SHALL DETERMINE WHEN TO USE THE 401(a) PENSION  
15 CONTRIBUTIONS THE EMPLOYER PREPAYS AND THE ACCRUED EARNINGS FROM THOSE  
16 401(a) PENSION CONTRIBUTIONS.

17 7. ASRS SHALL PROVIDE THE EMPLOYER AN ANNUAL STATEMENT OF 401(a)  
18 PENSION CONTRIBUTIONS THE EMPLOYER PREPAID AND THE ACCRUED EARNINGS.

19 8. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SUBSECTION, AN  
20 EMPLOYER MAY NOT PREPAY 401(a) PENSION CONTRIBUTIONS ACCORDING TO THIS  
21 SUBSECTION EITHER:

22 (a) IN AN AMOUNT GREATER THAN THE EMPLOYER'S NET PENSION LIABILITY  
23 AS REFLECTED BY ASRS IN ITS MOST RECENT APPLICABLE GOVERNMENTAL ACCOUNTING  
24 STANDARDS REPORT.

25 (b) AFTER THE TOTAL OF THE UNAMORTIZED PREPAID 401(a) PENSION  
26 CONTRIBUTIONS AND THE ACCRUED EARNINGS IS EQUAL TO OR GREATER THAN THE  
27 EMPLOYER'S NET PENSION LIABILITY AS REFLECTED BY ASRS IN ITS MOST RECENT  
28 APPLICABLE GOVERNMENTAL ACCOUNTING STANDARDS REPORT.

29 9. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SUBSECTION, THE  
30 EMPLOYER SHALL ELECT AN AMORTIZATION SCHEDULE BY WRITTEN AGREEMENT WITH  
31 ASRS, AND THE AMORTIZATION PERIOD SHALL BEGIN IN THE FISCAL YEAR FOLLOWING  
32 THE OCCURRENCE OF THE EARLIER OF:

33 (a) THE EMPLOYER'S NET PENSION LIABILITY IS ZERO OR LESS AS  
34 REFLECTED BY ASRS IN ITS MOST RECENT APPLICABLE GOVERNMENTAL ACCOUNTING  
35 STANDARDS REPORT.

36 (b) THE TOTAL OF THE UNAMORTIZED PREPAID 401(a) PENSION  
37 CONTRIBUTIONS AND THE ACCRUED EARNINGS IS EQUAL TO OR GREATER THAN THE  
38 EMPLOYER'S NET PENSION LIABILITY AS REFLECTED BY ASRS IN ITS MOST RECENT  
39 APPLICABLE GOVERNMENTAL ACCOUNTING STANDARDS REPORT.

40 10. AFTER AN EMPLOYER ELECTS AMORTIZATION TERMS, ASRS SHALL PROVIDE  
41 THE EMPLOYER AN AMORTIZATION SCHEDULE ANNUALLY THAT IS CURRENT AND BASED  
42 ON THE EMPLOYER'S ELECTION.

43 11. IF ASRS DETERMINES TO NO LONGER OFFER THE OPTION OF PREPAYING  
44 THE EMPLOYER'S 401(a) PENSION CONTRIBUTIONS DIRECTLY TO ASRS, ANY 401(a)  
45 PENSION CONTRIBUTIONS THE EMPLOYER PREPAYS AND THE ACCRUED EARNINGS

1 REMAINING ON ACCOUNT SHALL BE USED FOR FUTURE OBLIGATIONS ACCORDING TO THE  
2 WRITTEN AGREEMENT BETWEEN THE EMPLOYER AND ASRS.

3 12. ASSETS TRANSFERRED IN OR OUT OF OR HELD IN THE ASRS TRUST FUND  
4 ESTABLISHED BY SECTION 38-712, OR A SECTION 115 TRUST, AND THE ACCRUED  
5 EARNINGS ARE EXEMPT FROM STATE, COUNTY AND MUNICIPAL TAXES.

6 13. THE LEGISLATURE INTENDS THAT THE ACCRUED EARNINGS NOT BE  
7 SUBJECT TO FEDERAL INCOME TAX. ASRS MAY ADOPT ADDITIONAL RULES, POLICIES  
8 AND PROCEDURES AS ASRS DEEMS NECESSARY OR APPROPRIATE TO FULFILL THE  
9 LEGISLATURE'S INTENT THAT THE ACCRUED EARNINGS NOT BE SUBJECT TO FEDERAL  
10 INCOME TAX.

11 14. IF ASRS RECEIVES NOTIFICATION FROM THE UNITED STATES INTERNAL  
12 REVENUE SERVICE THAT THIS SUBSECTION OR ANY PORTION OF THIS SUBSECTION  
13 WILL JEOPARDIZE THE TAX-EXEMPT STATUS OF THE 401(a) PENSION CONTRIBUTIONS  
14 THE EMPLOYER PREPAYS ACCORDING TO THIS SUBSECTION AND THE ACCRUED  
15 EARNINGS, THE PORTION OF THIS SUBSECTION THAT WILL CAUSE THE  
16 DISQUALIFICATION DOES NOT APPLY.

17 E. FOR THE PURPOSES OF THIS SECTION:

18 1. "401(a) PENSION CONTRIBUTIONS" MEANS THE PORTION OF AN  
19 EMPLOYER'S PENSION CONTRIBUTION THAT IS SPECIFIC TO THE RETIREMENT PROGRAM  
20 ESTABLISHED UNDER THIS ARTICLE AND QUALIFIED UNDER SECTION 401(a) OF THE  
21 INTERNAL REVENUE CODE.

22 2. "SECTION 115 TRUST" MEANS A TRUST WHOSE INCOME IS EXEMPT FROM  
23 GROSS INCOME PURSUANT TO SECTION 115 OF THE INTERNAL REVENUE CODE FOR  
24 ESSENTIAL GOVERNMENT FUNCTIONS INTEGRAL TO THIS STATE AND ITS POLITICAL  
25 SUBDIVISIONS.

26 Sec. 2. Emergency

27 This act is an emergency measure that is necessary to preserve the  
28 public peace, health or safety and is operative immediately as provided by  
29 law.