Senate Engrossed

~~CORP; defined contribution; membership election~~
(now: CORP; defined contributions)

State of Arizona
Senate
Fifty-seventh Legislature
First Regular Session
2025

SENATE BILL 1148

AN ACT

AMENDING SECTIONS 38-865 AND 38-867, ARIZONA REVISED STATUTES; RELATING TO PUBLIC RETIREMENT SYSTEMS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

Section 1. Section 38-865, Arizona Revised Statutes, is amended to read:

38-865. Definitions

In this article, unless the context otherwise requires:

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

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

3. "Compensation":

(a) For participants as defined in paragraph 7, subdivision (a) of this section and section 38-865.01, has the same meaning prescribed in section 38-842.

(b) For participants as defined in paragraph 7, subdivision (b) of this section, means salary as defined in section 38-881.

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

5. "Employer" has the same meaning prescribed in section 38-842 or 38-881, as applicable.

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

7. "Participant" means:

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

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

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

(b) A member as defined in section 38-881, paragraph 27, subdivision (a) who is one of the following:

(i) An employee who is hired on or after July 1, 2018 AND BEFORE JULY 1, 2026, who is not in a designated position as defined in section 38-881, paragraph 13, subdivision (g) and who was not an active, an inactive or a retired member of the corrections officer retirement plan or a member of the corrections officer retirement plan with a disability on June 30, 2018.

(ii) An employee who is hired on or after July 1, 2018, who is in a designated position as defined in section 38-881, paragraph 13, subdivision (g), who makes the irrevocable election pursuant to section 38-881.01 to participate solely in the defined contribution plan established pursuant to this article and who was not an active, an inactive or a retired member of the corrections officer retirement plan or a member of the corrections officer retirement plan with a disability on June 30, 2018.

(iii) AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1, 2026, WHO IS NOT IN A DESIGNATED POSITION AS DEFINED IN SECTION 38-881, PARAGRAPH 13, SUBDIVISION (g) AND WHO WAS NOT AN ACTIVE, AN INACTIVE OR A RETIRED MEMBER OF THE CORRECTIONS OFFICER RETIREMENT PLAN OR A MEMBER OF THE CORRECTIONS OFFICER RETIREMENT PLAN WITH A DISABILITY ON JUNE 30, 2026.

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

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

Sec. 2. Section 38-867, Arizona Revised Statutes, is amended to read:

38-867. Contributions; member; employer; pickup

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

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

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

3. For a participant as defined in section 38-865, paragraph 7, subdivision (b), ITEMS (i) AND (ii), seven percent.

4. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (b), ITEM (iii), SEVEN AND ONE-HALF PERCENT.

B. A participant as defined in section 38-865 may make a onetime irrevocable election, before the participant is eligible to participate in any qualified plan of the employer, to contribute more than the percentage of the participant's gross pensionable compensation specified in this section, up to the amount allowable under section 415(c) of the internal revenue code. A participant as defined in section 38-865, paragraph 7, subdivision (b), ITEM (i) OR (ii) may make a onetime irrevocable election, before the participant is eligible to participate in any qualified plan of the employer, to contribute less than the percentage of the participant's gross pensionable compensation specified in this section but may not elect to contribute less than five percent of the participant's gross pensionable compensation. The election made pursuant to this subsection shall be the participant's contribution rate for the remainder of the participant's employment.

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

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

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

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

3. For a participant as defined in section 38-865, paragraph 7, subdivision (b), five percent.

4. BEGINNING JULY 1, 2026, FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (b), ITEM (i) OR (iii), TEN PERCENT.

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

F. Each participant as defined in section 38-865, paragraph 7, subdivision (a), item (i) and subdivision (b) and each employer shall contribute:

1. To the public safety personnel defined contribution retirement plan disability program established by article 4.2 of this chapter.

2. For participants who make an election pursuant to section 38-869, an equal amount for the group health benefits plan payments as specified in section 38-869 as determined by actuarial valuations reported by the board to the employer and local board, which shall be deposited in a separate account established pursuant to section 38-869.

G. A participant's contributions and earnings on those contributions are immediately vested.

H. A participant as defined in section 38-865, paragraph 7, subdivision (a) or section 38-865.01 is fully vested in the defined contribution plan after ten years of service, with employer contributions vesting at a rate of ten percent per year. If a participant described in this subsection dies or is determined to be eligible for an accidental or catastrophic disability pension pursuant to section 38-844 before completing ten years of service, the employer contributions are immediately fully vested.

I. A participant as defined in section 38-865, paragraph 7, subdivision (b) is fully vested in the defined contribution plan after three years of service, with the employer contributions vesting at the following rates:

1. Twenty-five percent after the first year of service.

2. Fifty percent after the second year of service.

3. One hundred percent after the third year of service.

J. If a participant as defined in section 38-865, paragraph 7, subdivision (b) dies or is determined to be eligible for an accidental or total and permanent disability pension pursuant to section 38-886 before completing three years of service, the employer contributions are immediately fully vested.