

PROPOSITION 124
[SCR 1019 (2016)]

public retirement system benefits

ANALYSIS BY LEGISLATIVE COUNCIL

1 Article 29, section 1 of the Arizona Constitution provides that public retirement
2 system benefits shall not be diminished or impaired. The Arizona Supreme Court has
3 determined that this constitutional provision prohibits decreasing a future permanent
4 benefit increase for certain existing retired public employees.

5 Proposition 124 would amend the Arizona Constitution to create an exception to
6 the current prohibition against diminishing or impairing public retirement system benefits
7 by allowing for certain adjustments to the Public Safety Personnel Retirement System
8 ("PSPRS") that are contained in Senate Bill 1428 (a separate piece of legislation already
9 passed by the Legislature and signed by the Governor, and not subject to voter approval).

10 If Proposition 124 is enacted by the voters, Senate Bill 1428 would make the
11 following changes:

12 1. For a retired public safety member, a survivor of a retired public safety
13 member, a current public safety employee and a public safety employee hired before July
14 1, 2017, Senate Bill 1428 replaces the current permanent benefit increase for retired
15 members or survivors with a new compounding cost-of-living adjustment (COLA).

16 a. The COLA would be based on the average annual percentage change in
17 the metropolitan Phoenix-Mesa consumer price index, with the immediately preceding
18 year as the base year for making the determination. The adjustment could not exceed two
19 percent of the retired member's or survivor's base benefit each year.

20 b. COLA payments would be made on July 1 each year. The COLA
21 would be prorated in the first year of a member's retirement.

22 c. A participant in a deferred retirement option plan would not receive the
23 COLA during the deferred retirement option participation period.

24 d. The PSPRS actuary would be required to include the projected cost of
25 providing the COLA in the calculation of normal cost and accrued liability for the
26 PSPRS.

27 2. For a public safety employee who is hired on or after January 1, 2012 and
28 before July 1, 2017, who is not covered by Social Security and who chooses to participate
29 in the new supplemental defined contribution plan, Senate Bill 1428 would require the
30 employee to contribute three percent of the employee's gross pensionable compensation
31 each year. The employer of a participating employee would make a contribution ranging
32 from 4% down to 3%, depending on the hire date of the employee, leveling at 3%
33 beginning July 1, 2024, for the duration of the employee's employment. The employee
34 would be vested in the employee's contribution immediately and would vest in the
35 employer contribution at a rate of 10% per year.

36 Proposition 124 preserves the Legislature's current ability to modify public
37 retirement benefits for future employees.