

REFERENCE TITLE: public retirement systems; 2022-2023.

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

## **SB 1737**

Introduced by  
Senators Fann: Borrelli, Gowan, Gray, Leach (with permission of Committee  
on Rules)

### **AN ACT**

AMENDING SECTIONS 38-651.01 AND 38-714, ARIZONA REVISED STATUTES; AMENDING SECTION 38-848, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 34, SECTION 4 AND CHAPTER 251, SECTION 2; RELATING TO PUBLIC RETIREMENT SYSTEMS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 38-651.01, Arizona Revised Statutes, is amended  
3 to read:

4 38-651.01. Group health and accident coverage for retired  
5 public employees and elected officials and their  
6 dependents

7 A. The department of administration, by rule, shall adopt standards  
8 to establish group health and accident coverage for former employees who  
9 worked for this state and who opt on retirement to enroll or continue  
10 enrollment in the group health and accident coverage for active employees  
11 working for this state, or with a disability, and receiving either income  
12 from a retirement program of this state or long-term disability income  
13 benefits pursuant to section 38-651.03 or chapter 5, article 2.1 of this  
14 title and their dependents and to establish eligibility for retired state  
15 employees or state employees with a disability to participate in the  
16 coverage. The department of administration may adopt rules that provide  
17 that if a retired insured or insured person with a disability dies before  
18 an insured surviving dependent, the insured surviving dependent is  
19 entitled to extended coverage at group rates if the insured surviving  
20 dependent elects to continue in the coverage within six months of the  
21 death of the retired insured or insured person with a disability and the  
22 insured surviving dependent agrees to pay the cost of the premium for  
23 group health and accident insurance. On notification of the death, the  
24 department of administration shall immediately notify an insured surviving  
25 dependent of the provisions of this section. The department of  
26 administration may enter into agreements with former state employees with  
27 a disability and their dependents who elect to obtain the coverage  
28 provided by this section. The agreements may include provisions for the  
29 payment of amounts sufficient to pay for the premium and administrative  
30 expense of providing the coverage. The department of administration may  
31 adopt rules that provide that on the death of a state employee who at the  
32 time of death was eligible for normal retirement pursuant to section  
33 38-757 under the Arizona state retirement system, the insured surviving  
34 spouse and eligible dependent children are entitled to continue coverage  
35 under group rates provided that the deceased insured state employee,  
36 spouse and dependent children were insured at the time of the employee's  
37 death. The insured surviving spouse shall be charged an amount sufficient  
38 to pay the full premium for the coverage.

39 B. The department of administration, by rule, may adopt standards  
40 to establish group health and accident coverage for former elected  
41 officials of this state or its political subdivisions and their dependents  
42 and to establish eligibility for former elected officials to participate  
43 in the coverage. Qualifications for eligibility shall include that the  
44 former elected official has at least five years of credited service in the  
45 elected officials' retirement plan pursuant to chapter 5 of this title,

1 had been covered under a group health or group health and accident plan  
2 while serving as an elected official and had been serving as an elected  
3 official on or after January 1, 1983. The department of administration  
4 may adopt rules that provide that on the death of an elected official or  
5 insured former elected official, the insured surviving spouse is entitled  
6 to coverage at group rates provided that the deceased insured former  
7 elected official met or would have met the qualifications for eligibility  
8 pursuant to this subsection or that the deceased elected official would  
9 have met the qualifications for eligibility had the deceased not been in  
10 office at the time of death. Except as provided in subsection J of this  
11 section, the insured former elected official or the insured surviving  
12 spouse shall be charged amounts that are sufficient to pay for the premium  
13 and state administrative expense of providing coverage. Notwithstanding  
14 subsection J of this section, the standards shall provide that all or any  
15 portion of the former state employees or former elected officials or their  
16 dependents shall be grouped with officers and employees of this state and  
17 its departments and agencies or their dependents as necessary to obtain  
18 health and accident coverage at favorable rates.

19 C. The Arizona state retirement system board may enter into  
20 agreements with state employee members of the system and plan who are  
21 retired or who have a disability, retired members of the elected  
22 officials' defined contribution retirement system established pursuant to  
23 chapter 5, article 3.1 of this title and retired participants of the  
24 public safety personnel defined contribution retirement plan established  
25 pursuant to chapter 5, article 4.1 of this title who elect to obtain the  
26 coverage provided pursuant to subsection A of this section. The  
27 agreements may include provision for the deduction from the retirement  
28 benefits of participants of a retirement program of this state who elect  
29 to obtain coverage of amounts sufficient to pay for the premium not  
30 covered under retirement benefits and state administrative expense of  
31 providing coverage.

32 D. Retired state employee members or state employee members with a  
33 disability of the public safety personnel retirement system, the public  
34 safety personnel defined contribution retirement plan established pursuant  
35 to chapter 5, article 4.1 of this title, the elected officials' retirement  
36 plan, the elected officials' defined contribution retirement system  
37 established pursuant to chapter 5, article 3.1 of this title, the  
38 corrections officer retirement plan or the optional retirement programs  
39 authorized pursuant to section 15-1628 who opt on retirement to enroll or  
40 continue enrollment in the group health and accident coverage for active  
41 employees working for this state and their dependents and who are  
42 receiving benefits from the public safety personnel retirement system, the  
43 public safety personnel defined contribution retirement plan established  
44 pursuant to chapter 5, article 4.1 of this title, the elected officials'  
45 retirement plan, the elected officials' defined contribution retirement

1 system established pursuant to chapter 5, article 3.1 of this title, the  
2 corrections officer retirement plan or the optional retirement programs  
3 authorized pursuant to section 15-1628 may participate in group health and  
4 accident coverage provided pursuant to this section. The department of  
5 administration shall adopt rules that are necessary for the implementation  
6 of this subsection.

7 E. The board of trustees of the public safety personnel retirement  
8 system may enter into agreements with retired state employee members and  
9 their dependents who elect to obtain the coverage provided pursuant to  
10 this section. The agreements may include provision for the deduction from  
11 the retirement benefits of participants of a retirement program of this  
12 state who elect to obtain coverage of amounts sufficient to pay for the  
13 premium not covered under retirement benefits and state administrative  
14 expense of providing coverage.

15 F. The board of trustees of the public safety personnel retirement  
16 system may enter into agreements with retired judges and retired elected  
17 officials and their dependents who elect to obtain the coverage provided  
18 pursuant to this section. The agreements may include provision for the  
19 deduction from the retirement benefits of participants of a retirement  
20 program of this state who elect to obtain coverage of amounts sufficient  
21 to pay for the premium not covered under retirement benefits and state  
22 administrative expense of providing coverage.

23 G. The board of trustees of the public safety personnel retirement  
24 system may contract with an insurance carrier and adopt standards to  
25 establish a group health and accident insurance coverage program for  
26 retired members of the public safety personnel retirement system, their  
27 dependents and their spouses. Any members or spouses who elect to obtain  
28 the group health and accident coverage provided under this subsection  
29 shall agree to a deduction from their monthly retirement benefits of an  
30 amount sufficient to pay for the premium not covered under retirement  
31 benefits and the administrative expense of providing coverage.

32 H. A county board of supervisors may enter into agreements to  
33 establish group health and accident coverage for retired county employees  
34 or county employees with a disability and their dependents who elect to  
35 obtain the coverage provided pursuant to section 11-263, subsection B.  
36 The agreements may include provision for the deduction from the retirement  
37 benefits of participants of a retirement program of this state who elect  
38 to obtain the coverage of amounts sufficient to pay for the premium not  
39 covered under retirement benefits and the administrative expense of  
40 providing for the coverage.

41 I. Nonmedicare eligible retirees who live in this state, who enroll  
42 in a qualifying plan under this section and who reside outside the area of  
43 a qualifying health maintenance organization shall be offered the option  
44 to enroll with a qualified health maintenance organization offered through

1 their provider under the same premiums as if they lived within the area  
2 boundaries of the qualified health maintenance organization provided that:

3 1. All medical services are rendered and received at an office  
4 designated by the qualifying health maintenance organization or at a  
5 facility referred by the health maintenance organization.

6 2. All nonemergency or nonurgent travel, ambulatory and other  
7 expenses from the residence area of the retiree to the designated office  
8 of the qualifying health maintenance organization or the facility referred  
9 by the health maintenance organization are the responsibility of and at  
10 the expense of the retiree.

11 3. All emergency or urgent travel, ambulatory and other expenses  
12 from the residence area of the retiree to the designated office of the  
13 qualifying health maintenance organization or the facility referred by the  
14 health maintenance organization shall be paid pursuant to any agreement  
15 between the health maintenance organization and the retiree living outside  
16 the area of the qualifying health maintenance organization.

17 J. Public ~~funds~~ MONIES shall not be expended to pay all or any part  
18 of the premium of insurance pursuant to this section except for monies  
19 authorized to be paid for any insured from the retirement plan from which  
20 the insured is receiving benefits.

21 K. A retired member of the elected officials' defined contribution  
22 retirement system established pursuant to chapter 5, article 3.1 of this  
23 title may elect to obtain the coverage provided pursuant to subsection A  
24 of this section, but shall pay the premium for the coverage selected and  
25 is not eligible for benefits pursuant to section 38-783 or 38-817.

26 L. A retired participant of the public safety personnel defined  
27 contribution retirement plan established pursuant to chapter 5, article  
28 4.1 of this title may elect to obtain the coverage provided pursuant to  
29 subsection A of this section, ~~but~~ shall pay the premium for the coverage  
30 selected. A retired participant ~~that~~ WHO makes an election pursuant to  
31 section 38-869 may be eligible for group health benefits as specified in  
32 section 38-869.

33 M. FROM AND AFTER JANUARY 2, 2023:

34 1. A PERSON WHO IS ELIGIBLE FOR GROUP HEALTH AND ACCIDENT COVERAGE  
35 PURSUANT TO THIS SECTION AND WHO ELECTS TO OBTAIN INSURANCE COVERAGE  
36 PROVIDED PURSUANT TO THIS SECTION MUST MAINTAIN CONTINUOUS COVERAGE AS  
37 FOLLOWS:

38 (a) IN A HEALTH PLAN PROVIDED PURSUANT TO THIS SECTION IN ORDER TO  
39 RETAIN ELIGIBILITY FOR HEALTH INSURANCE COVERAGE UNDER THIS SECTION.

40 (b) IN A DENTAL PLAN PROVIDED PURSUANT TO THIS SECTION IN ORDER TO  
41 RETAIN ELIGIBILITY FOR DENTAL INSURANCE COVERAGE UNDER THIS SECTION.

42 (c) IN A VISION PLAN PROVIDED PURSUANT TO THIS SECTION IN ORDER TO  
43 RETAIN ELIGIBILITY FOR VISION INSURANCE COVERAGE UNDER THIS SECTION.

44 2. WITHIN THIRTY-ONE DAYS AFTER BECOMING ELIGIBLE FOR GROUP HEALTH  
45 AND ACCIDENT COVERAGE UNDER THIS SECTION, A PERSON MUST MAKE AN ELECTION

1 FOR INSURANCE COVERAGE FROM THE HEALTH, DENTAL OR VISION INSURANCE PLANS  
2 MADE AVAILABLE BY THE DEPARTMENT OR THE PERSON FORFEITS ANY FURTHER  
3 ELIGIBILITY FOR HEALTH, DENTAL OR VISION INSURANCE COVERAGE UNDER THIS  
4 SECTION. IF THE PERSON DOES NOT MAINTAIN CONTINUOUS ENROLLMENT IN A  
5 HEALTH, DENTAL OR VISION INSURANCE PLAN MADE AVAILABLE BY THE DEPARTMENT  
6 PURSUANT TO THIS SECTION, THE PERSON AND THE PERSON'S ELIGIBLE DEPENDENTS  
7 ARE NOT ELIGIBLE TO ENROLL AT A LATER TIME FOR THE HEALTH, DENTAL OR  
8 VISION INSURANCE COVERAGE, RESPECTIVELY.

9 Sec. 2. Section 38-714, Arizona Revised Statutes, is amended to  
10 read:

11 38-714. Powers and duties of ASRS and board; annual  
12 investment report

13 A. ASRS shall have the powers and privileges of a corporation,  
14 shall have an official seal and shall transact all business in the name  
15 "Arizona state retirement system", and in that name may sue and be sued.

16 B. The board is responsible for supervising the administration of  
17 this article by the director of ASRS.

18 C. The board is responsible for the performance of fiduciary duties  
19 and other responsibilities required to preserve and protect the retirement  
20 trust fund established by section 38-712.

21 D. The board shall not advocate for or against legislation  
22 providing for benefit modifications, except that the board shall provide  
23 technical and administrative information regarding the impact of benefit  
24 modification legislation.

25 E. The board may:

26 1. Determine the rights, benefits or obligations of any person  
27 under this article and any member under articles 2.1 and 7 of this chapter  
28 and afford any person dissatisfied with a determination a hearing on the  
29 determination. The board may delegate the duty and authority to act on  
30 the board's behalf to a committee of the board for the purposes of this  
31 paragraph and title 41, chapter 6, article 10 relating to any decision  
32 made under this paragraph by that committee of the board.

33 2. Determine the amount, manner and time of payment of any benefits  
34 under this article.

35 3. Recommend amendments to this article and articles 2.1 and 7 of  
36 this chapter that are required for efficient and effective administration.

37 4. Adopt, amend or repeal rules for the administration of the plan,  
38 this article and articles 2.1 and 7 of this chapter.

39 F. Beginning June 30, 2016, the board shall determine which of the  
40 generally accepted actuarial cost methods shall be used in the annual  
41 actuarial valuation of the plan.

42 G. The board and ASRS are not subject to title 41, chapter 6,  
43 except title 41, chapter 6, article 10, for actuarial assumptions and  
44 calculations, investment strategy and decisions and accounting  
45 methodology.

1 H. The board shall submit to the governor and legislature for each  
2 fiscal year ~~to~~ NOT later than eight months after the close of the fiscal  
3 year a report of its operations and the operations of ASRS. The report  
4 shall follow generally accepted accounting principles and generally  
5 accepted financial reporting standards and shall include:

6 1. A report on an actuarial valuation of ASRS assets and  
7 liabilities.

8 2. Any other statistical and financial data that may be necessary  
9 for the proper understanding of the financial condition of ASRS and the  
10 results of board operations.

11 3. On request of the governor or the legislature, a list of  
12 investments owned. This list shall be provided in an electronic format.

13 4. An estimate of the aggregate fees paid for private equity  
14 investments, including management fees and performance fees.

15 I. The board shall:

16 1. Prepare and publish a synopsis of the annual report for the  
17 information of ASRS members.

18 2. Contract for a study of the mortality, disability, service and  
19 other experiences of the members and employers participating in ASRS. The  
20 study shall be conducted for fiscal year 1990-1991 and for at least every  
21 fifth fiscal year thereafter. A report of the study shall be completed  
22 within eight months after the close of the applicable fiscal year and  
23 shall be submitted to the governor and the legislature.

24 3. Conduct an annual actuarial valuation of ASRS assets and  
25 liabilities.

26 4. DEVELOP A POLICY REGARDING ROUTINE STRESS TESTING OF ASRS. THE  
27 STRESS TEST SHALL USE INDUSTRY STANDARDS, SUCH AS THE INCLUSION OF  
28 ASSUMPTIONS REGARDING INVESTMENT RETURNS, INFLATION, POPULATION GROWTH,  
29 PAYROLL GROWTH AND EMPLOYER CONTRIBUTIONS. FOR THE PURPOSES OF THIS  
30 PARAGRAPH, "STRESS TEST" MEANS AN ASSESSMENT OF THE RISK EXPOSURE OF THE  
31 RETIREMENT SYSTEM OR PLAN, INCLUDING SCENARIO ANALYSIS, SIMULATION  
32 ANALYSIS AND SENSITIVITY ANALYSIS.

33 5. INCLUDE A STRESS TEST THAT MEETS THE REQUIREMENTS OF PARAGRAPH 4  
34 OF THIS SUBSECTION IN THE ANNUAL ACTUARIAL VALUATION OF ASRS. IN ADDITION  
35 TO ANY OTHER STATISTICAL AND FINANCIAL DATA THAT MAY BE NECESSARY, THE  
36 STRESS TEST SHALL INCLUDE THE FOLLOWING SCENARIOS:

37 (a) ASSUMING A TWENTY-YEAR PERIOD OF INVESTMENT RETURNS THAT ARE  
38 TWO AND FOUR PERCENTAGE POINTS LOWER THAN THE PLAN'S ASSUMED RATE OF  
39 RETURN.

40 (b) ASSUMING THERE IS A ONE-YEAR LOSS ON INVESTMENTS OF TWENTY  
41 PERCENT FOLLOWED BY A TWENTY-YEAR PERIOD OF INVESTMENT RETURNS THAT ARE  
42 TWO PERCENTAGE POINTS LOWER THAN THE PLAN'S ASSUMED RATE OF RETURN.

43 6. ON OR BEFORE DECEMBER 1 OF EACH YEAR, SUBMIT TO THE GOVERNOR,  
44 THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE HOUSE OF  
45 REPRESENTATIVES AN ANNUAL INVESTMENT REPORT AND PROVIDE THIS REPORT TO THE

1 SECRETARY OF STATE. IN ADDITION TO ANY OTHER STATISTICAL AND FINANCIAL  
2 DATA THAT MAY BE NECESSARY, THE REPORT SHALL INCLUDE THE FOLLOWING  
3 INFORMATION:

- 4 (a) THE CURRENT INVESTMENT PORTFOLIO WEIGHTS BY ASSET CLASS.
- 5 (b) THE FINAL, NET-OF-FEE RETURN FOR THE FOLLOWING:
  - 6 (i) THE PRIOR MONTH.
  - 7 (ii) THE PRIOR THREE MONTHS.
  - 8 (iii) THE FISCAL YEAR TO DATE.
  - 9 (iv) THE PRIOR TWELVE MONTHS.
  - 10 (v) THE ANNUALIZED RETURN OVER THE PRIOR THREE YEARS.
  - 11 (vi) THE ANNUALIZED RETURN OVER THE PRIOR FIVE YEARS.
  - 12 (vii) THE ANNUALIZED RETURN OVER THE PRIOR SEVEN YEARS.
  - 13 (viii) THE ANNUALIZED RETURN OVER THE PRIOR TEN YEARS.
- 14 (c) A COMPARISON OF NET-OF-FEE RETURNS TO TARGET BENCHMARKS ADOPTED  
15 BY ASRS.

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

18 Sec. 3. Section 38-848, Arizona Revised Statutes, as amended by  
19 Laws 2021, chapter 34, section 4 and chapter 251, section 2, is amended to  
20 read:

21 38-848. Board of trustees; powers and duties; reporting  
22 requirements; independent trust fund;  
23 administrator; agents and employees; advisory  
24 committee

25 A. The board of trustees shall consist of nine members and shall  
26 have the rights, powers and duties that are set forth in this section.  
27 The term of office of members shall be five years to expire on the third  
28 Monday in January of the appropriate year. The board shall select a  
29 chairperson from among its members each calendar year. Members are  
30 eligible to receive compensation in an amount of \$50 a day, but not to  
31 exceed \$1,000 in any one fiscal year, and are eligible for reimbursement  
32 of expenses pursuant to chapter 4, article 2 of this title. The board  
33 consists of the following members appointed as follows:

34 1. Two members representing law enforcement, one of whom is  
35 appointed by the president of the senate and one of whom is appointed by  
36 the governor. A statewide association representing law enforcement in  
37 this state shall forward nominations to the appointing elected officials,  
38 providing at least three nominees for each position. At least one of the  
39 members appointed under this paragraph shall be an elected local board  
40 member.

41 2. Two members representing firefighters, one of whom is appointed  
42 by the speaker of the house of representatives and one of whom is  
43 appointed by the governor. A statewide association representing  
44 firefighters in this state shall forward nominations to the appointing  
45 elected officials, providing at least three nominees for each position.



1 At least one of the members appointed under this paragraph shall be an  
2 elected local board member.

3 3. Three members representing cities and towns in this state, one  
4 of whom is appointed by the president of the senate, one of whom is  
5 appointed by the speaker of the house of representatives and one of whom  
6 is appointed by the governor. An association representing cities and  
7 towns in this state shall forward nominations to the appointing elected  
8 officials, providing at least three nominees for each position. These  
9 nominees shall represent taxpayers or employers and may not be members of  
10 the system.

11 4. One member who represents counties in this state and who is  
12 appointed by the governor. An association representing county supervisors  
13 in this state shall forward nominations to the governor, providing at  
14 least three nominees for the position. These nominees shall represent  
15 taxpayers or employers and may not be members of the system.

16 5. One member who is appointed by the governor from a list of three  
17 nominees forwarded by the board. The board shall select the nominees to  
18 forward to the governor from a list of at least five nominees received  
19 from the advisory committee.

20 B. Each appointment made pursuant to subsection A of this section  
21 shall be chosen from the list of nominees provided to the appointing  
22 elected official. For any appointment made by the governor pursuant to  
23 subsection A of this section, before appointment by the governor, a  
24 prospective member of the board shall submit a full set of fingerprints to  
25 the governor to obtain a state and federal criminal records check pursuant  
26 to section 41-1750 and Public Law 92-544. The department of public safety  
27 may exchange this fingerprint data with the federal bureau of  
28 investigation. A board member may be reappointed. Notwithstanding  
29 section 38-295, a board member may be removed from office only for cause  
30 by the appointing power or because the board member has vacated the  
31 member's seat on the board. A board member who is removed for cause shall  
32 be provided written notice and an opportunity for a response. The  
33 appointing power may remove a board member based on written findings that  
34 specify the reason for removal. Any vacancy that occurs other than by  
35 expiration of a term shall be filled for the balance of the term. All  
36 vacancies shall be filled in the same manner as the initial appointment.  
37 A board member vacates the office if the member either:

38 1. Is absent without excuse from three consecutive regular meetings  
39 of the board.

40 2. Resigns, dies or becomes unable to perform board member duties.

41 C. The members of the board who are appointed pursuant to  
42 subsection A of this section and who are not members of the system shall  
43 be independent, qualified professionals who are responsible for the  
44 performance of fiduciary duties and other responsibilities required to

1 preserve and protect the fund and shall have at least ten years'  
2 substantial experience as any one or a combination of the following:

3 1. A portfolio manager acting in a fiduciary capacity.

4 2. A securities analyst.

5 3. A senior executive or principal of a trust institution,  
6 investment organization or endowment fund acting either in a management or  
7 an investment-related capacity.

8 4. A chartered financial analyst in good standing as determined by  
9 the chartered financial analyst institute.

10 5. A current or former professor or instructor at the college or  
11 university level in the field of economics, finance, actuarial science,  
12 accounting or pension-related subjects.

13 6. An economist.

14 7. Any other senior executive engaged in the field of public or  
15 private finances or with experience with public pension systems.

16 8. A senior executive in insurance, banking, underwriting,  
17 auditing, human resources or risk management.

18 D. All monies in the fund shall be deposited and held in a public  
19 safety personnel retirement system depository. Monies in the fund shall  
20 be disbursed from the depository separate and apart from all monies or  
21 funds of this state and the agencies, instrumentalities and subdivisions  
22 of this state, except that the board may commingle the assets of the fund  
23 and the assets of all other plans entrusted to its management in one or  
24 more group trusts, subject to the crediting of receipts and earnings and  
25 charging of payments to the appropriate employer, system or plan. The  
26 monies shall be secured by the depository in which they are deposited and  
27 held to the same extent and in the same manner as required by the general  
28 depository law of this state. For purposes of making the decision to  
29 invest in securities owned by the fund or any plan or trust administered  
30 by the board, the fund and assets of the plans and the plans' trusts are  
31 subject to the sole management of the board for the purpose of this  
32 article except that, on the board's election to invest in a particular  
33 security or make a particular investment, the assets comprising the  
34 security or investment may be chosen and managed by third parties approved  
35 by the board. The board may invest in portfolios of securities chosen and  
36 managed by a third party. The board's decision to invest in securities  
37 such as mutual funds, commingled investment funds, exchange traded funds,  
38 private equity or venture capital limited partnerships, real estate  
39 limited partnerships or limited liability companies and real estate  
40 investment trusts whose assets are chosen and managed by third parties is  
41 not an improper delegation of the board's investment authority.

42 E. All contributions under this system and other retirement plans  
43 that the board administers shall be forwarded to the board and shall be  
44 held, invested and reinvested by the board as provided in this article.  
45 All property and monies of the fund and other retirement plans that the

1 board administers, including income from investments and from all other  
2 sources, shall be retained for the exclusive benefit of members, as  
3 provided in the system and other retirement plans that the board  
4 administers, and shall be used to pay benefits to members or their  
5 beneficiaries or to pay expenses of operation and administration of the  
6 system and fund and other retirement plans that the board administers.

7 F. The board shall have the full power in its sole discretion to  
8 invest and reinvest, alter and change the monies accumulated under the  
9 system and other retirement plans and trusts that the board administers as  
10 provided in this article. In addition to its power to make investments  
11 managed by others, the board may delegate the authority the board deems  
12 necessary and prudent to investment management pursuant to section  
13 38-848.03, as well as to the administrator, employed by the board pursuant  
14 to subsection M, paragraph 6 of this section, and any deputy or assistant  
15 administrators to invest the monies of the system and other retirement  
16 plans and trusts that the board administers if the administrator,  
17 investment management and any deputy or assistant administrators follow  
18 the investment policies that are adopted by the board. The board may  
19 commingle securities and monies of the fund, the elected officials'  
20 retirement plan, the corrections officer retirement plan and other plans  
21 or monies entrusted to its care, subject to the crediting of receipts and  
22 earnings and charging of payments to the account of the appropriate  
23 employer, system or plan. In making every investment, the board shall  
24 exercise the judgment and care under the circumstances then prevailing  
25 that persons of ordinary prudence, discretion and intelligence exercise in  
26 the management of their own affairs, not in regard to speculation but in  
27 regard to the permanent disposition of their funds, considering the  
28 probable income from their funds as well as the probable safety of their  
29 capital, if:

30 1. Not more than eighty percent of the combined assets of the  
31 system or other plans that the board manages is invested at any given time  
32 in corporate stocks, based on the cost value of the stocks irrespective of  
33 capital appreciation.

34 2. Not more than five percent of the combined assets of the system  
35 or other plans that the board manages is invested in corporate stock  
36 issued by any one corporation, other than corporate stock issued by  
37 corporations chartered by the United States government or corporate stock  
38 issued by a bank or insurance company.

39 3. Not more than five percent of the voting stock of any one  
40 corporation is owned by the system and other plans that the board  
41 administers, except that this limitation does not apply to membership  
42 interests in limited liability companies.

43 4. Corporate stocks and exchange traded funds eligible for direct  
44 purchase are restricted to stocks and exchange traded funds that, except  
45 for bank stocks, insurance stocks, stocks acquired for coinvestment in

1 connection with the system's or the plans' or trusts' commingled  
2 investments and interests in limited liability companies and mutual funds,  
3 are any of the following:

4 (a) Listed or approved on issuance for listing on an exchange  
5 registered under the securities exchange act of 1934, as amended  
6 (15 United States Code sections 78a through 78pp).

7 (b) Designated or approved on notice of issuance for designation on  
8 the national market system of a national securities association registered  
9 under the securities exchange act of 1934, as amended (15 United States  
10 Code sections 78a through 78pp).

11 (c) Listed or approved on issuance for listing on an exchange  
12 registered under the laws of this state or any other state.

13 (d) Listed or approved on issuance for listing on an exchange of a  
14 foreign country with which the United States is maintaining diplomatic  
15 relations at the time of purchase, except that not more than twenty  
16 percent of the combined assets of the system and other plans that the  
17 board manages is invested in foreign securities, based on the cost value  
18 of the stocks irrespective of capital appreciation.

19 (e) An exchange traded fund that is recommended by the chief  
20 investment officer of the system, that is registered under the investment  
21 company act of 1940 (15 United States Code sections 80a-1 through 80a-64)  
22 and that is both traded on a public exchange and based on a publicly  
23 recognized index.

24 G. Notwithstanding any other law, the board is not required to  
25 invest in any type of investment that is dictated or required by any  
26 entity of the federal government and that is intended to fund economic  
27 development projects, public works or social programs, but may consider  
28 such economically targeted investments pursuant to its fiduciary  
29 responsibility. The board, on behalf of the system and all other plans or  
30 trusts the board administers, may invest in, lend monies to or guarantee  
31 the repayment of monies by a limited liability company, limited  
32 partnership, joint venture, partnership, limited liability partnership or  
33 trust in which the system and plans or trusts have a financial interest,  
34 whether the entity is closely held or publicly traded and that, in turn,  
35 may be engaged in any lawful activity, including venture capital, private  
36 equity, the ownership, development, management, improvement or operation  
37 of real property and any improvements or businesses on real property or  
38 the lending of monies.

39 H. Conference call meetings of the board that are held for  
40 investment purposes only are not subject to chapter 3, article 3.1 of this  
41 title, except that the board shall maintain minutes of these conference  
42 call meetings and make them available for public inspection within  
43 twenty-four hours after the meeting. The board shall review the minutes  
44 of each conference call meeting and shall ratify all legal actions taken

1 during each conference call meeting at the next scheduled meeting of the  
2 board.

3 I. The board is not liable for the exercise of more than ordinary  
4 care and prudence in the selection of investments and performance of its  
5 duties under the system and is not limited to so-called "legal investments  
6 for trustees", but all monies of the system and other plans that the board  
7 administers shall be invested subject to all of the conditions,  
8 limitations and restrictions imposed by law.

9 J. Except as provided in subsection F of this section, the board  
10 may:

11 1. Invest and reinvest the principal and income of all assets that  
12 the board manages without distinction between principal and income.

13 2. Sell, exchange, convey, transfer or otherwise dispose of any  
14 investments made on behalf of the system or other plans the board  
15 administers in the name of the system or plans by private contract or at  
16 public auction.

17 3. Also:

18 (a) Vote on any stocks, bonds or other securities.

19 (b) Give general or special proxies or powers of attorney with or  
20 without power of substitution.

21 (c) Exercise any conversion privileges, subscription rights or  
22 other options and make any payments incidental to the exercise of the  
23 conversion privileges, subscription rights or other options.

24 (d) Consent to or otherwise participate in corporate  
25 reorganizations or other changes affecting corporate securities, delegate  
26 discretionary powers and pay any assessments or charges in connection  
27 therewith.

28 (e) Generally exercise any of the powers of an owner with respect  
29 to stocks, bonds, securities or other investments held in or owned by the  
30 system or other plans whose assets the board administers.

31 4. Make, execute, acknowledge and deliver any other instruments  
32 that may be necessary or appropriate to carry out the powers granted in  
33 this section.

34 5. Register any investment held by the system or other plans whose  
35 assets the board administers in the name of the system or plan or in the  
36 name of a nominee or trust.

37 6. At the expense of the system or other plans that the board  
38 administers, enter into an agreement with any bank or banks for the  
39 safekeeping and handling of securities and other investments coming into  
40 the possession of the board. The agreement shall be entered into under  
41 terms and conditions that secure the proper safeguarding, inventory,  
42 withdrawal and handling of the securities and other investments. Access  
43 to and deposit or withdrawal of the securities from any place of deposit  
44 selected by the board is not allowed and may not be made except as the  
45 terms of the agreement provide.

1           7. Appear before local boards and the courts of this state and  
2 political subdivisions of this state through counsel or an appointed  
3 representative to protect the fund or the assets of other plans that the  
4 board administers. The board is not responsible for the actions or  
5 omissions of the local boards under this system but may require a review  
6 or rehearing of actions or omissions of local boards. A limitation period  
7 does not prohibit the board or administrator from contesting or require  
8 the board or administrator to implement or comply with a local board  
9 decision that violates the internal revenue code or that threatens to  
10 impair the tax-qualified status of the system or any plan administered by  
11 the board or administrator.

12           8. Empower the fund administrator to take actions on behalf of the  
13 board that are necessary for the protection and administration of the fund  
14 or the assets of other plans that the board administers pursuant to the  
15 guidelines of the board.

16           9. Do all acts, whether or not expressly authorized, that may be  
17 deemed necessary or proper for the protection of the investments held in  
18 the fund or owned by other plans or trusts that the board administers.

19           10. Settle threatened or actual litigation against any system or  
20 plan that the board administers.

21           K. Investment expenses and operation and administrative expenses of  
22 the board shall be accounted for separately and allocated against  
23 investment income.

24           L. The board, as soon as possible within a period of six months  
25 following the close of any fiscal year, shall transmit to the governor and  
26 the legislature a comprehensive annual financial report on the operation  
27 of the system and other plans that the board administers that contains,  
28 among other things:

- 29           1. A balance sheet.
- 30           2. A statement of income and expenditures for the year.
- 31           3. A report on an actuarial valuation of its assets and  
32 liabilities.

33           4. A list of investments owned.

34           5. The total rate of return, yield on cost, and ~~percent~~ PERCENTAGE  
35 of cost to market value of the fund and the assets of other plans that the  
36 board administers.

37           6. Any other statistical and financial data that may be necessary  
38 for the proper understanding of the financial condition of the system and  
39 other plans that the board administers and the results of their  
40 operations. A synopsis of the annual report shall be published for the  
41 information of members of the system, the elected officials' retirement  
42 plan or the corrections officer retirement plan.

43           7. An analysis of the long-term level percent of employer  
44 contributions and compensation structure and whether the funding

1 methodology is sufficient to pay one hundred percent of the unfunded  
2 accrued liability under the elected officials' retirement plan.

3 8. An estimate of the aggregate employer contribution rate for the  
4 public safety personnel retirement system for the next ten fiscal years  
5 and an estimate of the aggregate employer contribution rate for the  
6 corrections officer retirement plan for the next ten fiscal years.

7 9. An estimate of the employer contribution rates for the next ten  
8 fiscal years for each of the following employers within the public safety  
9 personnel retirement system:

- 10 (a) Department of liquor licenses and control.
- 11 (b) Department of public safety.
- 12 (c) Northern Arizona university.
- 13 (d) University of Arizona.
- 14 (e) Arizona state university.
- 15 (f) Arizona game and fish department.
- 16 (g) Department of law.
- 17 (h) Department of emergency and military affairs.
- 18 (i) Arizona state parks board.

19 10. An estimate of the employer contribution rates for the next ten  
20 fiscal years for each of the following employers within the corrections  
21 officer retirement plan:

- 22 (a) State department of corrections.
- 23 (b) Department of public safety.
- 24 (c) The judiciary.
- 25 (d) Department of juvenile corrections.

26 11. An estimate of the aggregate fees paid for private equity  
27 investments and other alternative investments, including management fees  
28 and performance fees and carried interest.

29 M. The board shall:

30 1. Maintain the accounts of the system and other plans that the  
31 board administers and issue statements to each employer annually and to  
32 each member who requests a statement.

33 2. Report the results of the actuarial valuations to the local  
34 boards and employers.

35 3. Contract on a fee basis with an independent investment counsel  
36 to advise the board in the investment management of the fund and assets of  
37 other plans that the board administers and with an independent auditing  
38 firm to audit the board's accounting.

39 4. Allow the auditor general to make an annual audit and transmit  
40 the results to the governor and the legislature.

41 5. Contract on a fee basis with an actuary who shall make actuarial  
42 valuations of the system and other plans that the board administers, be  
43 the technical adviser of the board on matters regarding the operation of  
44 the funds created by the provisions of the system, the elected officials'  
45 retirement plan, the corrections officer retirement plan and the public

1 safety cancer insurance policy program and perform other duties required  
2 in connection therewith. The actuary must be a member of a nationally  
3 recognized association or society of actuaries.

4 6. Employ, as administrator, a person, state department or other  
5 body to serve at the pleasure of the board.

6 7. Establish procedures and guidelines for contracts with  
7 actuaries, auditors, investment counsel and legal counsel and for  
8 safeguarding of securities.

9 8. Issue a request for proposals every five years for an external  
10 auditor. The board is not required to change its auditor after issuing  
11 the request for proposals.

12 9. Develop a policy regarding routine stress testing of the  
13 retirement systems and plans administered by the board at the employer  
14 level and system level. The stress test shall use industry standards,  
15 such as the inclusion of assumptions regarding investment returns,  
16 inflation, population growth, payroll growth and employer contributions.  
17 For the purposes of this paragraph, "stress test" means an assessment of  
18 the risk exposure of the retirement system or plan, including scenario  
19 analysis, simulation analysis and sensitivity analysis.

20 10. INCLUDE A STRESS TEST THAT MEETS THE REQUIREMENTS OF PARAGRAPH  
21 9 OF THIS SUBSECTION IN THE ANNUAL SYSTEM LEVEL ACTUARIAL VALUATIONS OF  
22 THE RETIREMENT SYSTEMS AND PLANS ADMINISTERED BY THE BOARD. IN ADDITION  
23 TO ANY OTHER STATISTICAL AND FINANCIAL DATA THAT MAY BE NECESSARY, THE  
24 STRESS TEST SHALL INCLUDE THE FOLLOWING SCENARIOS:

25 (a) ASSUMING A TWENTY-YEAR PERIOD OF INVESTMENT RETURNS THAT ARE  
26 TWO AND FOUR PERCENTAGE POINTS LOWER THAN THE SYSTEM'S OR PLAN'S ASSUMED  
27 RATE OF RETURN.

28 (b) ASSUMING THERE IS A ONE-YEAR LOSS ON INVESTMENTS OF TWENTY  
29 PERCENT FOLLOWED BY A TWENTY-YEAR PERIOD OF INVESTMENT RETURNS THAT ARE  
30 TWO PERCENTAGE POINTS LOWER THAN THE SYSTEM'S OR PLAN'S ASSUMED RATE OF  
31 RETURN.

32 11. ON OR BEFORE DECEMBER 1 OF EACH YEAR, SUBMIT TO THE GOVERNOR,  
33 THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE HOUSE OF  
34 REPRESENTATIVES AN ANNUAL INVESTMENT REPORT AND PROVIDE THIS REPORT TO THE  
35 SECRETARY OF STATE. IN ADDITION TO ANY OTHER STATISTICAL AND FINANCIAL  
36 DATA THAT MAY BE NECESSARY, THE REPORT SHALL INCLUDE THE FOLLOWING  
37 INFORMATION:

38 (a) THE CURRENT INVESTMENT PORTFOLIO WEIGHTS BY ASSET CLASS.

39 (b) THE FINAL, NET-OF-FEE RETURN FOR THE FOLLOWING:

40 (i) THE PRIOR MONTH.

41 (ii) THE PRIOR THREE MONTHS.

42 (iii) THE FISCAL YEAR TO DATE.

43 (iv) THE PRIOR TWELVE MONTHS.

44 (v) THE ANNUALIZED RETURN OVER THE PRIOR THREE YEARS.

45 (vi) THE ANNUALIZED RETURN OVER THE PRIOR FIVE YEARS.



1 (vii) THE ANNUALIZED RETURN OVER THE PRIOR SEVEN YEARS.

2 (viii) THE ANNUALIZED RETURN OVER THE PRIOR TEN YEARS.

3 (c) A COMPARISON OF NET-OF-FEE RETURNS TO TARGET BENCHMARKS ADOPTED  
4 BY THE BOARD.

5 N. The administrator, under the direction of the board, shall:

6 1. Administer this article.

7 2. Be responsible for the recruitment, hiring and day-to-day  
8 management of employees.

9 3. Invest the monies of the system and other plans that the board  
10 administers as the board deems necessary and prudent as provided in  
11 subsections F and J of this section and subject to the investment policies  
12 and fund objectives adopted by the board.

13 4. Establish and maintain an adequate system of accounts and  
14 records for the system and other plans that the board administers, which  
15 shall be integrated with the accounts, records and procedures of the  
16 employers so that the system and other plans that the board administers  
17 operate most effectively and at minimum expense and that duplication of  
18 records and accounts is avoided.

19 5. In accordance with the board's governance policy and procedures  
20 and the budget adopted by the board, hire employees and services the  
21 administrator deems necessary and prescribe their duties, including the  
22 hiring of one or more deputy or assistant administrators to manage the  
23 system's operations, investments and legal affairs.

24 6. Be responsible for income, the collection of the income and the  
25 accuracy of all expenditures.

26 7. Recommend to the board annual contracts for the system's  
27 actuary, auditor, investment counsel, legal counsel and safeguarding of  
28 securities.

29 8. Perform additional duties and powers prescribed by the board and  
30 delegated to the administrator.

31 0. The system is an independent trust fund, and the board is not  
32 subject to title 41, chapter 6. Contracts for goods and services approved  
33 by the board are not subject to title 41, chapter 23. As an independent  
34 trust fund whose assets are separate and apart from all other funds of  
35 this state, the system and the board are not subject to the restrictions  
36 prescribed in section 35-154 or article IX, sections 5 and 8, Constitution  
37 of Arizona. Loans, guarantees, investment management agreements and  
38 investment contracts that are entered into by the board are contracts  
39 memorializing obligations or interests in securities that the board has  
40 concluded, after thorough due diligence, do not involve investments in  
41 Sudan or Iran or otherwise provide support to terrorists or in any way  
42 facilitate illegal immigration into the United States. These contracts do  
43 not involve the procurement, supply or provision of goods, equipment,  
44 labor, materials or services that would require the warranties required by  
45 section 41-4401.

1 P. The board, the administrator, the deputy or assistant  
2 administrators and all persons employed by them are subject to title 41,  
3 chapter 4, article 4. The administrator, deputy or assistant  
4 administrators and other employees of the board are entitled to receive  
5 compensation pursuant to section 38-611.

6 Q. In consultation with the director of the department of  
7 administration, the board may enter into employment agreements and  
8 establish the terms of those agreements with persons holding any of the  
9 following system positions:

- 10 1. Administrator.
- 11 2. Deputy or assistant administrator.
- 12 3. Chief investment officer.
- 13 4. Deputy chief investment officer.
- 14 5. Fiduciary or investment counsel.

15 R. The attorney general or an attorney approved by the attorney  
16 general and paid by the fund is the attorney for the board and shall  
17 represent the board in any legal proceeding or forum that the board deems  
18 appropriate. The board, administrator, deputy or assistant administrators  
19 and employees of the board are not personally liable for any acts done in  
20 their official capacity in good faith reliance on the written opinions of  
21 the board's attorney.

22 S. At least once in each five-year period after the effective date,  
23 the actuary shall make an actuarial investigation into the mortality,  
24 service and compensation experience of the members and beneficiaries of  
25 the system and other plans that the board administers and shall make a  
26 special valuation of the assets and liabilities of the monies of the  
27 system and plans. Taking into account the results of the investigation  
28 and special valuation, the board shall adopt for the system and other  
29 plans that the board administers those mortality, service and other tables  
30 deemed necessary.

31 T. On the basis of the tables the board adopts, the actuary shall  
32 make a valuation of the assets and liabilities of the funds of the system  
33 and other plans that the board administers at least every year. By  
34 November 1 of each year the board shall provide a preliminary report and  
35 by December 31 of each year provide a final report to the governor, the  
36 speaker of the house of representatives and the president of the senate on  
37 the contribution rate for the ensuing fiscal year.

38 U. Neither the board nor any member or employee of the board shall  
39 directly or indirectly, for the board, the member or the employee or as an  
40 agent, in any manner use the monies or deposits of the fund except to make  
41 current and necessary payments, nor shall the board or any member or  
42 employee become an endorser or surety or in any manner an obligor for  
43 monies loaned by or borrowed from the fund or the assets of any other  
44 plans that the board administers.

1 V. Financial or commercial information that is provided to the  
2 board, employees of the board and attorneys of the board in connection  
3 with investments in which the board has invested or investments the board  
4 has considered for investment is confidential, proprietary and not a  
5 public record if the information is information that would customarily not  
6 be released to the public by the person or entity from whom the  
7 information was obtained.

8 W. A person who is a dealer as defined in section 44-1801 and who  
9 is involved in securities or investments related to the board's  
10 investments is not eligible to serve on the board.

11 X. The public safety personnel retirement system advisory committee  
12 is established and shall serve as a liaison between the board and the  
13 members and employers of the system. The president of the senate and the  
14 speaker of the house of representatives shall each appoint to the  
15 committee one member who is either a legislator or a legislative staff  
16 member. The remaining members of the committee shall be appointed by the  
17 chairperson of the board from names submitted to the chairperson by  
18 associations representing law enforcement, firefighters, state government,  
19 counties, cities and towns and tribal governments. The committee shall  
20 select a chairperson from among its members each calendar year. The  
21 committee members appointed by the chairperson of the board shall consist  
22 of the following ten members:

- 23 1. A member who is a law enforcement officer.
- 24 2. A member who is a firefighter.
- 25 3. A member of the elected officials' retirement plan.
- 26 4. A member of the corrections officer retirement plan.
- 27 5. A retiree from the public safety personnel retirement system.
- 28 6. A representative from a city or town in this state.
- 29 7. A representative from a county in this state.
- 30 8. A representative from a fire district in this state.
- 31 9. A representative from a state employer.
- 32 10. A representative from a tribal government located in this  
33 state.

34 Sec. 4. Group health and accident coverage; election;  
35 retirees

36 To remain eligible to enroll in group health and accident coverage  
37 pursuant to section 38-651.01, Arizona Revised Statutes, as amended by  
38 this act, a person who retires before January 3, 2023 must elect health,  
39 dental or vision insurance coverage pursuant to section 38-651.01, Arizona  
40 Revised Statutes, as amended by this act, in the next open enrollment  
41 period following the effective date of this section or within thirty-one  
42 days after becoming eligible for group health and accident coverage  
43 pursuant to section 38-651.01, Arizona Revised Statutes, as amended by  
44 this act, whichever is later.