REFERENCE TITLE: PSPRS; contribution rates

State of Arizona
House of Representatives
Fifty-sixth Legislature
First Regular Session
2023

HB 2028

Introduced by
Representative Livingston

AN ACT

AMENDING SECTION 38-843, ARIZONA REVISED STATUTES; RELATING TO THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

Section 1. Section 38-843, Arizona Revised Statutes, is amended to read:

38-843. Contributions; employer account asset transfers

A. Each employer ~~who~~ THAT participates in the system on behalf of a group of employees who were covered under a prior public retirement system, other than the federal social security act, shall transfer all securities and monies attributable to the taxes and contributions of ~~the~~ THIS state other than ~~the state~~ THIS STATE'S contribution to social security, the employer and the employees for the covered group of employees under the other system, such transfer to be made to the fund subject to all existing liabilities and on or within sixty days following the employer's effective date. All monies and securities transferred to the fund shall be credited to the employer's account in the fund. A record of the market value and the cost value of such transferred contributions shall be maintained for actuarial and investment purposes.

B. As determined by actuarial valuations reported to the employer and the local board by the board of trustees, each employer shall make contributions sufficient under such actuarial valuations to meet both the normal cost for members hired before July 1, 2017 plus the actuarially determined amount required to amortize the unfunded accrued liability on a level percent of compensation basis for all employees of the employer who are members of the system or participants as defined in section 38-865, paragraph 7, subdivision (a), item (i) over, beginning July 1, 2017, a closed period of not more than twenty years, except as provided in subsection ~~L~~ M of this section, that is established by the board of trustees taking into account the recommendation of the system's actuary. An employer shall have the option of paying a higher level percent of compensation thereby reducing its unfunded past service liability. An employer shall also have the option of increasing its contributions in order to reduce the contributions required from its members under subsection C of this section, except that if an employer elects this option the employer shall pay the same higher level percentage contribution for all members of the eligible group. A county employer that elected to pay a higher level percentage contribution rate may eliminate that higher level percentage contribution rate amount for members who are hired on or after January 1, 2015. During a period when an employee is on industrial leave and the employee elects to continue contributions during the period of industrial leave, the employer shall make the contributions based on the compensation the employee would have received in the employee's job classification if the employee was in normal employment status. All contributions made by the employers and all state taxes allocated to the fund shall be irrevocable and shall be used to pay benefits under the system or to pay expenses of the system and fund. The minimum employer contribution that is paid and that is in excess of the normal cost plus the actuarially determined amount required to amortize the unfunded accrued liability as calculated pursuant to this subsection shall be used to reduce future employer contribution increases and shall not be used to pay for an increase in benefits that are otherwise payable to members. The board shall separately account for these monies in the fund. Forfeitures arising because of severance of employment before a member becomes eligible for a pension or any other reason shall be applied to reduce the cost of the employer, not to increase the benefits otherwise payable to members. After the close of any fiscal year, if the system's actuary determines that the actuarial valuation of an employer's account contains excess valuation assets other than excess valuation assets that were in the employer's account as of fiscal year 2004-2005 and is more than one hundred percent funded, the board shall account for the excess valuation assets up to one hundred percent of THE present value of all future benefits of the employer in a stabilization reserve account. After the close of any fiscal year, if the system's actuary determines that the actuarial valuation of an employer's account has a valuation asset deficiency and an unfunded actuarial accrued liability, the board shall use any valuation assets in the stabilization reserve account for that employer, to the extent available, to limit the decline in that employer's funding ratio to not more than two percent.

C. Each member who was hired before July 1, 2017, throughout the member's period of service from the member's effective date of participation, shall contribute to the fund an amount equal to the amount prescribed in subsection E of this section, except as provided in subsection B of this section. Each member who was hired on or after July 1, 2017, throughout the member's period of service from the member's effective date of participation, shall contribute to the fund an amount equal to the amount prescribed in subsection ~~G~~ H of this section. During a period when an employee is on industrial leave and the employee elects to continue contributions during the period of industrial leave, the employee shall make the employee's contribution based on the compensation the employee would have received in the employee's job classification if the employee was in normal employment status. Contributions of members shall be required as a condition of employment and membership in the system and shall be made by payroll deductions. Every employee shall be deemed to consent to such deductions. Payment of an employee's compensation, less such payroll deductions, shall constitute a full and complete discharge and satisfaction of all claims and demands by the employee relating to remuneration for the employee's services rendered during the period covered by the payment, except with respect to the benefits provided under the system. A member may not, under any circumstance, borrow from, take a loan against or remove contributions from the member's account before the termination of membership in the plan or the receipt of a pension.

D. Each employer shall transfer to the board the employer and employee contributions provided for in subsections B, C and ~~G~~ H of this section within ten working days after each payroll date. Contributions transferred after that date shall include a penalty of ten percent per annum, compounded annually, for each day the contributions are late, such penalty to be paid by the employer. Delinquent payments due under this subsection, together with interest charges as provided in this subsection, may be recovered by action in a court of competent jurisdiction against an employer liable for the payments or, at the request of the board, may be deducted from any other monies, including excise revenue taxes, payable to such employer by any department or agency of this state.

E. The amount contributed by a member who was hired before July 1, 2017 pursuant to subsection C of this section is:

1. Through June 30, 2011, 7.65 percent of the member's compensation.

2. For fiscal year 2011-2012, 8.65 percent of the member's compensation.

3. For fiscal year 2012-2013, 9.55 percent of the member's compensation.

4. For fiscal year 2013-2014, 10.35 percent of the member's compensation.

5. For fiscal year 2014-2015, 11.05 percent of the member's compensation.

6. For fiscal year 2015-2016 ~~and each~~ THROUGH fiscal year ~~thereafter~~ 2022-2023, 11.65 percent of the member's compensation or 33.3 percent of the sum of the member's contribution rate from the preceding fiscal year and the aggregate computed employer contribution rate that is calculated pursuant to subsection B of this section, whichever is lower, except that the member contribution rate shall not be less than 7.65 percent of the member's compensation and the employer contribution rate shall not be less than the rate prescribed in subsection B of this section.

7. FOR FISCAL YEAR 2023-2024 AND EACH FISCAL YEAR THEREAFTER, 7.65 PERCENT OF THE MEMBER'S COMPENSATION.

F. FROM AND AFTER JUNE 30, 2011 THROUGH JUNE 30, 2023, the amount of the member's contribution that exceeds 7.65 percent of the member's compensation shall not be used to reduce the employer's contributions that are calculated pursuant to subsection B of this section until the employer's funded ratio, as expressed as a percentage of the employer's actuarial value of assets to accrued actuarial liability as determined by actuarial valuations reported pursuant to subsection B of this section, is at or above one hundred percent. ~~If the employer's funded ratio falls below one hundred percent funded, the amount of the member's contributions above 7.65 percent as provided in subsection E, paragraph 6 of this section shall accumulate from that time and not be used to reduce the~~

~~employer's contribution rate until the employer's funded ratio returns to one hundred percent funded.~~

G. FROM AND AFTER JUNE 30, 2023, THE AMOUNT OF THE MEMBERS CONTRIBUTION THAT EXCEEDS 7.65 PERCENT OF THE MEMBER'S COMPENSATION COLLECTED PURSUANT TO SUBSECTION E OF THIS SECTION AND THAT WAS ACCUMULATED FROM AND AFTER JUNE 30, 2011 THROUGH JUNE 30, 2023 MAY BE USED IN CALCULATING THE EMPLOYERS CONTRIBUTIONS THAT ARE CALCULATED PURSUANT TO SUBSECTION B OF THIS SECTION.

~~G.~~ H. For members hired on or after July 1, 2017, the employer and member contributions are determined as follows:

1. For employers and members in the public safety employer risk pool:

(a) As determined by the system consolidated actuarial valuation reported to the board of trustees, each employer shall make contributions sufficient under such actuarial valuation to pay fifty percent of both the normal cost plus the actuarially determined amount required to amortize the total unfunded accrued liability within the risk pool for all employers attributable to all members in the risk pool. For each year that new unfunded liabilities are attributable to the public safety employer risk pool, a new amortization base representing the most recent annual gain or loss, smoothed over a period of not more than five years as determined by the board, shall be created on a level-dollar basis over a closed period equal to the average expected remaining service lives of all members of the risk pool but not more than ten years, as determined by the board.

(b) The remaining fifty percent of both the normal cost and actuarially determined amount required to amortize the total unfunded accrued liability within the public safety employer risk pool as determined in subdivision (a) of this paragraph shall be divided by the total number of members in the risk pool such that each member contributes an equal percentage of the member's compensation. Member contributions shall begin simultaneously with membership in the system and shall be made by payroll deduction.

2. For employers and members that are not in the public safety employer risk pool:

(a) As determined by actuarial valuations reported to the employer and the local board by the board of trustees, each employer shall make contributions sufficient under such actuarial valuations to pay fifty percent of both the normal cost plus the actuarially determined amount required to amortize the total unfunded accrued liability for each employer attributable only to those members hired on or after July 1, 2017. For each year that new unfunded liabilities are attributable to the employer's own members hired on or after July 1, 2017, a new amortization base representing the most recent annual gain or loss, smoothed over a period of not more than five years as determined by the board, shall be created on a level-dollar basis over a closed period equal to the average expected remaining service lives of all members but not more than ten years, as determined by the board.

(b) The remaining fifty percent of both the normal cost and actuarially determined amount required to amortize the total unfunded accrued liability as determined pursuant to subdivision (a) of this paragraph shall be divided by the total number of the employer's members who were hired on or after July 1, 2017 such that each member contributes an equal percentage of the member's compensation. Member contributions shall begin simultaneously with membership in the system and shall be made by payroll deduction.

~~H.~~ I. In any fiscal year, an employer's contribution to the system in combination with member contributions may not be less than the actuarially determined normal cost for that fiscal year. The board may not suspend contributions to the system unless both of the following apply:

1. The retirement system actuary, based on the annual valuation, determines the stabilization reserve of an employer's account is funded to one hundred percent of present value of all future benefits of the employer.

2. The board determines that suspending, in whole or in part, the normal cost contributions as calculated under subsection B of this section would not be in conflict with its fiduciary responsibility.

~~I.~~ J. An employer may request that the board transfer excess assets of an employer's account that has no liabilities or beneficiaries to another account of the employer that is managed by the board. The board may authorize the transfer of assets if all of the following apply:

1. The board verifies that the employer's liabilities have been reconciled with the administrator and there are no remaining or potential liabilities or beneficiaries of the employer's account.

2. The board and the system bear no liability that the proposed transfer conforms with any other restrictions on the use or transfer of the assets of the proposed transfer.

3. The transfer does not violate the internal revenue code or threaten to impair the system's status as a qualified plan under the internal revenue code.

~~J.~~ K. For the purposes of requesting a transfer of assets pursuant to this section, an employer must meet both of the following requirements:

1. The governing body of the employer adopts a resolution requesting the transfer of assets in an open session where public comment is allowed.

2. The employer submits a written request to the administrator of the board for the transfer of assets along with the adopted resolution.

~~K.~~ L. For a state employer that meets the requirements of subsection ~~I~~ J of this section, the joint legislative budget committee may request from the administrator of the board confirmation that an employer's account meets the requirements to transfer the account assets. The legislature shall pass a bill directing the board to transfer the assets from the eligible employer account to another account of the employer. Before the legislature passes the bill, the joint legislative budget committee shall confirm with the administrator of the board that the assets are eligible for transfer to another employer account and discuss the matter in a scheduled public meeting.

~~L.~~ M. For the purposes of calculating unfunded liability amortization payments pursuant to subsection B of this section, an employer may make a onetime election to request that the board use a closed period of not more than thirty years if the employer meets both of the following requirements:

1. The governing body of the employer adopts a resolution requesting the longer amortization period and specifying the actuarial valuation date for which the new amortization period is to begin. The actuarial valuation date chosen must be the system's fiscal year end either immediately before or immediately after the date of the resolution.

2. The employer submits a written request for the longer amortization period along with the adopted resolution to the administrator of the board.

~~M.~~ N. For the purposes of subsection ~~L~~ M of this section, employer does not include this state or any state agency.

~~N.~~ O. If a member's employment is terminated with an employer by either party, the total liability under the system associated with the member's service with the employer remains with the employer.

Sec. 2. Retroactivity

This act applies retroactively to from and after June 30, 2023.