



**ARIZONA STATE SENATE**  
*Fifty-Third Legislature, First Regular Session*

**AMENDED**  
FACT SHEET FOR S.B. 1442

~~corrections officer retirement plan; modifications~~  
(NOW: modifications; corrections officer retirement plan)

Purpose

Requires participation in the Public Safety Personnel Define Contribution (DC) Retirement Plan (Plan) for an employee of a CORP employer who is hired on or after July 1, 2018. Bifurcates probation and surveillance officers hired on or after July 1, 2018. Subject to voter approval, establishes a cost-of-living adjustment rather than a permanent benefit increase for CORP employees.

Background

CORP is a special retirement system created by the State Legislature for certain full time correctional officers, probation officers, and dispatchers in the state of Arizona. The Plan provides a uniform, consistent and equitable statewide retirement program to these CORP personnel. The Plan is designed to meet the special needs of personnel engaged in inmate contact.

CORP is a governmental retirement plan qualified under 401(a) of the Internal Revenue Code. It is a *defined benefit plan*, which means that pensions are determined by a formula, versus the amount of money in the member's account. In addition, CORP is an *agent multiple-employer retirement plan*, which means that separate accounts are kept for each employer in the Plan and benefit payment costs are not *shared* by all employers in the Plan. Monies are pooled for investment purposes, but benefits and refunds are paid from each employer's separate account in the CORP.

On May 17, 2016, Arizona voters passed Proposition 124, regarding a cost-of-living adjustment for members of the Public Safety Personnel Retirement System (PSPRS). In addition to existing employees (Tiers 1 and 2) who were affected by that legislation, it added a third tier of benefits for employees hired on or after July 1, 2017 (Tier 3).

There may be a positive fiscal impact in the long-term to the state General Fund associated with this legislation.

Provisions

***CORP Defined Benefit (DB) Plan***

1. Bifurcates CORP membership into DB and defined contribution (DC) plans contingent on irrevocable election and date of hire.

2. Precludes membership in the DB plan for any employee hired on or after July 1, 2018, with exception as noted.
3. Precludes an employer's contribution in combination with member contributions from being less than the actuarially determined normal cost for a fiscal year. The PSPRS Board (Board) may not suspend contributions to the DB plan unless both of the following apply:
  - a) the actuary determined that continuing to accrue excess earnings could result in disqualification of the DB plan's tax-exempt status.
  - b) the Board determines that the receipt of any additional contributions required would conflict with its fiduciary responsibilities.
4. Provides that the total liability associated with the member's service with the employer remains with the employer, if a member's employment is terminated with an employer by either party.
5. Entitles each eligible child to a child's pension, if a deceased member does not have an eligible surviving spouse or the pension of the eligible surviving spouse is terminated.

***Establishment of CORP DC Plan***

6. Requires participation in the Plan for an employee who is hired on or after July 1, 2018, with exception as noted.
7. Establishes an additional definition of *participant* who is an employee who is hired on or after July 1, 2018 and who was not an active, an inactive or a retired member of CORP or a member of CORP with a disability on June 30, 2018.
8. Requires DC participants to deposit seven percent of participant's gross pensionable compensation into their annuity account.
9. Allows a DC employee to make a one-time irrevocable election, before the participant is eligible to participate in any qualified plan, to contribute less than seven percent but may not elect to contribute less than five percent.
10. Allows a DC participant to make a one-time irrevocable election to contribute more than the percentage of gross pensionable compensation, up to the amount allowable under the Internal Revenue Code.
11. Requires employers of DC participants to deposit five percent of participant's gross pensionable compensation into the participant's annuity account.
12. Fully vests the DC participant in the DC plan after three years of service, with the employer contributions vesting at the following rate:
  - a) 25 percent after the first year of service.
  - b) 50 percent after the second year of service.
  - c) 100 percent after the third year of service.

13. Requires DC participants to take part in the DC retirement plan disability program.
14. Specifies that a DC participant who meets the requirements of the disability pension shall receive a monthly disability benefit equal to that provided to a DB participant, reduced by an amount equal to the monthly annuitized value of the participant's annuity account.
15. Specifies that the employer contributions are immediately fully vested if a participant dies before completing three years of service.

***Bifurcation of Tier 3 Probation and Surveillance Officers***

16. Includes probation officers and surveillance officers hired on or after July 1, 2018 (tier 3 probation officers), in the definition of *member* for purposes of inclusion in the DB plan.
17. Defines *average monthly salary* for tier 3 probation officers, as 1/60th of the aggregate amount of salary that is paid a member during a period of sixty consecutive months of service in which the member received the highest salary within the last 120 months of service.
18. Defines *normal retirement date* for tier 3 probation officers, as the first day of the calendar month immediately following the employee's completion of ten years of credited service if the employee is at least 55 years of age.
19. Allows a tier 3 probation officer to participate in the DC plan, depending on the employee's election. The employee's participation in either the DB or the DC plan begins 90 days after the date the employee is hired. If election is not made before the 90th day, the employee is automatically enrolled in the DB plan for the remainder of the employee's employment.
20. Requires the Board to provide each tier 3 probation officer live, objective educational training, counseling and participant-specific plan information about CORP and PSPRS DC retirement plan options, during the first sixty days of the employee's employment and before the employee makes a decision regarding the individual's retirement plan.
21. Allows a tier 3 probation officer who terminates employment for a reason other than death or retirement, and who has less than ten years of credited service, to be paid the accumulated member contribution plus interest at a rate determined by the Board within 20 days after filing a written application for payment.
22. Allows the following amounts for a tier 3 probation officer's graded multiplier:

Percentage	Years of Credited Service
1.25	At least 10 years but less than 15
1.50	At least 15 years but less than 20
1.75	At least 20 years but less than 22
2.00	At least 22 years but less than 25
2.25	At least 25 years

23. Allows a tier 3 probation officer who has at least ten years of credited service to retire at 52.5 years of age. The employee will receive an actuarially equivalent reduced benefit.
24. Requires each employer of a tier 3 probation officer to pay 33.3 percent of the normal cost plus 50 percent of the actuarially determined amount required to amortize the total unfunded accrued liability attributable to those employees hired on or after July 1, 2018.
25. Requires that the remaining percentages of normal cost and unfunded accrued liability shall be divided by the total number of the employer's members hired on or after July 1, 2018 such that each member contributes an equal percentage of the member's compensation.
26. Limits the tier 3 probation officer's pensionable pay cap to \$70,000.
27. Requires the Board to adjust the pensionable pay cap in the same manner as adjusted by the IRC.
28. Requires the Board, beginning in FY 2022, and every third fiscal year thereafter, to adjust the pensionable pay cap by the average change in the probation wage index.
29. Requires the Board to annually publish the probation wage index in January and provides specifics for determining the probation wage index.

***Cost-of-Living Adjustment (COLA) for Probation and Surveillance Officers***

30. Establishes a compounding COLA for probation officers hired on or after July 1, 2018. The employee is eligible beginning the earlier of the first calendar year after the seventh anniversary of the retired member's retirement or when the retired member is or would have been 60 years of age.
31. Awards the COLA on July 1 each year that the funded ratio for members who are hired on or after July 1, 2018 is 70 percent or more.
32. Bases the COLA on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index, with the immediately preceding year as the base year for making the determination, not to exceed:

Percentage of Base Benefit	Funded Ratio as Reported in Most Recent Actuarial Valuation
2%	90% or more
1 ½%	80% - 90%
1%	70% - 80%

33. Requires the actuary to include the projected cost of providing the COLA in the calculation of normal cost and accrued liability.
34. Defines *funded ratio* as the ratio of the market value of assets to the actual accrued liabilities.

***COLA for Current Employees and Retirees (Conditional)***

35. Repeals prior permanent benefit increase (PBI) statutes.
36. Establishes a COLA for Tier 1 or 2 members, retired members or survivors of retired members. The first payment shall be made immediately following the first year after the member's retirement and shall be made on July 1 each year thereafter.
37. Requires the base benefit to be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index, with the immediately preceding year as the base year for making the determination, not to exceed annually two percent of the retired member's or survivor's base benefit.
38. Requires that the COLA be prorated in the first year of a member's retirement.
39. Requires the plan's actuary to include the projected cost of providing the COLA in the calculation of normal cost and accrued liability.
40. Conditions the enactment of the provisions regarding the COLA and repeal of PBI statutes on the Constitution of Arizona being amended as prescribed in Senate Concurrent Resolution 1023, Fifty-third Legislature, First Regular Session, by vote of the people at the next general election.

***Public Safety Personnel Retirement System (PSPRS)  
DC Disability Program***

41. Requires a local board to determine eligibility for a death benefit to a surviving spouse of a participant in the PSPRS DC Plan who is killed in the line of duty or who dies from injuries suffered in the line of duty.
42. Specifies that the surviving spouse or any eligible child shall receive a monthly death benefit equal to a monthly death pension that would be provided to a Tier 3 CORP member, reduced by an amount equal to the monthly annuitized value of the participant's annuity account that does not include a COLA.
43. Specifies that a participant is not eligible for a disability benefit for an ordinary disability.
44. Requires the Board to instruct the PSPRS actuary to calculate the monthly payment that would be paid to the surviving spouse assuming the participant had elected a straight life annuity.

***Miscellaneous***

45. Sets the unfunded liability amortization period under CORP to not more than 20 years.
46. Allows a CORP and PSPRS employer to make a one-time election to request that the Board use a closed period of not more than 30 years if the employer both:

- a) adopts a resolution requesting the longer amortization period and specifies the actuarial valuation date for which the new amortization period is to begin; and
  - b) submits a written request for the longer amortization period along with the adopted resolution to the administrator of the Board.
47. Specifies that for the purposes of the choice of a longer amortization period:
- a) *employer* does not include this state or any state agency; and
  - b) the Board may use a closed period of not more than 30 years for the judiciary.
48. Requires an employer to disclose the employer's funding ratio under the plan on the employer's public website.
49. Requires the Board of Trustees to post on its website for each plan the Board administers each employer's funding ratio.
50. Includes technical and conforming changes.
51. Becomes effective on the general effective date, with the exception of the provisions that are conditional.

Amendments Adopted by Committee

- Adopted the strike everything amendment

Amendments Adopted by Committee of the Whole

1. Changes the amortization base from a closed period of twenty years to a closed period of thirty years, as established by the Board.
2. Adds death benefit for surviving spouse.
3. Adds surveillance officers to the probation officer category of benefits.
4. Adds requirements to the pensionable pay cap.

Amendments Adopted by the House of Representatives

1. Adds .25 percent to each incremental grade of the CORP credited service multiplier for Tier 3 members.
2. Reinstates the unfunded liability amortization period under PSPRS to not more than 20 years.
3. Allows the employer to make a one-time election to request that the Board use a closed period of not more than 30 years provided certain requirements are met.

4. Sets the unfunded liability amortization period under CORP to not more than 20 years with the one-time election.
5. Allows the Board to use a closed period of not more than 30 years for the judiciary.
6. Fully vests a corrections, probation or surveillance officer who is participating in the PSPRS DC plan, who dies before completing three years of service.
7. Specifies a participant of the PSPRS DC disability program is not eligible for a disability benefit for an ordinary disability.
8. Entitles a child's pension to an eligible child of a deceased member.
9. Requires the CORP Board to provide each Tier 3 probation officer with live, objective educational training, counseling and participant-specific plan information about CORP and PSPRS DC plans.
10. Adds the requirement for each employer's funded ratio to be posted on the board of trustee's website for each plan and on each employer's website.

Senate Action

FIN	2/15/17	DPA	5-2-0
3 <sup>rd</sup> Read	3/06/17		17-13-0

House Action

BI	3/20/17	DPA	5-2-0-1
3 <sup>rd</sup> Read	4/10/17		53-3-4

Prepared by Senate Research

April 10, 2017

CS/jn