



Changes to the Arizona State Retirement System (ASRS)

SB1609 was passed by the Arizona Legislature and signed into law on April 29, 2011 by Governor Brewer. It makes numerous changes to the Arizona State Retirement System. Below is an explanation for each of the changes made.

Normal Retirement Age

SB1609 does not change the normal retirement age for any employee hired *before* July 1, 2011. These employees remain at the 80-point threshold (age + years of service = 80). For employees hired from and after July 1, 2011, they will no longer have an 85-point threshold to reach normal retirement age. The 85-point system was put into place during the 2010 legislative session and was set to go into effect on July 1, 2011. This would have allowed ASRS members to retire once they reached 85 points—their age + years of service combined to reach 85 points.

SB1609 changes the definition for “normal retirement age” so that the only way to reach it for those hired on or after July 1, 2011 is as follows:

- The person’s 65th birthday
- The person’s 62nd birthday and completion of at least 10 years of credited service
- The person’s 60th birthday and completion of at least 25 years of credited service
- The person’s 55th birthday and completion of at least 30 years of credited service

[Note: Those employed prior to July 1, 2011 are not impacted by this change and remain under the 80-point retirement system.]

The effect of this change

This change to normal retirement age will require employees to work a longer length of time before they are eligible to retire. It also establishes a “hard age” limit, so that the earliest age at which a person can retire is 55 years. (Under the current 80-point system in effect for those hired prior to July 1, 2011, most teachers/school employees are able to reach retirement by the age of 52 if they are lifelong educators/employees who started teaching/working at the age of 23.)

The AEA believes there was no reason to change the definition of normal retirement age for the ASRS because the change that was needed to keep the system actuarially sound was made during the 2010 legislative session (change to 85-points). Realizing that the 85-point system was going to be eliminated by Speaker Kirk Adams, the AEA proposed the normal retirement age language as described above. If we had not provided this amendment language, the elimination of the 85-point system would have required teachers and school employees to work until the age of 62 with 10 years of credited service before they could reach their retirement. This would have been the only way these individuals would be eligible for an unreduced retirement benefit.

Alternative Contribution Rate

SB1609 establishes an alternative contribution rate that must be paid by employers who hire back employees who have already retired and are collecting a pension through the return to work program. This is the one change the ASRS Board recommended occur this year. SB1609 ensures this alternative contribution rate goes into effect on July 1, 2012 and requires private providers (Smart Schools and ESI) who hire school

employees in the first year to also be assessed the alternative contribution rate. This is language the AEA provided to Speaker Adams and Senator Yarbrough and one component we got into the pension reform package. This will help mitigate the need to increase the contribution rate for current employees.

Service purchase

SB1609 requires anyone who wants to purchase service credit (for public service, leave without pay, leave of absence and active military service) to contribute to the ASRS for at least 10 years before they are eligible to do so. Currently, employees may purchase service credit after 5 years of employment. In addition, there will be a limit on how much service credit can be “purchased” with a maximum of 60 months total. This change will affect any person who has not purchased service prior to July 20, 2011.

Defined Contribution and Retirement Study Committee

SB1609 establishes a Defined Contribution and Retirement Study Committee that consists of the five members of the State Board of Investment, three Senators, three Representatives, one person from the Board of Trustees of PSPRS (public safety), and one member of the ASRS Board. The Committee is required to study numerous items including the feasibility and cost of transferring existing members and/or new members to a defined contribution plan. The Committee must meet at least twice in 2011 and provide an interim report to the Legislature and Governor. The final report including finding and recommendations shall be submitted to the Legislature, Governor and Secretary of State by December 31, 2012. In addition, \$50,000 from the ASRS administration account and \$50,000 from the PSPRS account is made in fiscal year 2012 to fund the committee so they can use the services of consultants, actuaries and attorneys in performing its duties.

Forfeiture of Retirement Benefits on Felony Conviction

SB1609 requires a court to order forfeiture of all rights and benefits under a state retirement system if a person is convicted or pleads no contest to an offense that is a class 1 through 5 felony and that was committed in the course of the person’s employment as a public official or for a public employer. The person is entitled to receive, in a lump sum amount, their portion of the contribution plus interest, less any benefit already received. In addition, this person will be ineligible for future membership in any state retirement plan.

The Big Issue That Is NOT Addressed in SB1609

The budget passed on April 1, 2011 changed the contribution rate for ASRS so instead of the 50/50 split between employees and employers, the new contribution rate that started on July 1, 2011 was pushed onto the backs of the employees. Employees now bear the burden of 53% of the contribution rate and employers pay 47%. [Employees pay 11.39% and employers pay 10.10% as of July 1, 2011.]

The AEA attempted to get this issue addressed in SB1609 and was unsuccessful. We have now filed a lawsuit against this change.