

## **GOOD NEWS FROM THE CAPITOL**

### **Retirement 50/50 Bill Passes Arizona House by vote of 60-0**

On Monday, March 5, the Arizona House of Representatives passed HB2264 by a unanimous vote of 60 ayes – 0 nays. This is the bill that returns the retirement contribution rate back to an equal 50-50 split between you and your school district. It also requires the state to refund any contributions made since July 1, 2011 in excess of 50 percent.

HB2264 was passed as a result of AEA's legal victory last month in Arizona Superior Court. The Court found it to be illegal to reduce the salaries of school employees/public employees by increasing the retirement contribution rate. During the 2011 Legislative Session, Governor Jan Brewer, former Senate President Russell Pearce, and former Speaker of the House Kirk Adams crafted a budget deal that reduced your take-home pay by increasing the percentage of employee paid contributions to the retirement system. Rather than a 50% employer and 50% employee contribution split, your contribution rose to 53% and the employer rate was reduced to 47%. The legislation did not allow school districts to have access to the savings; instead the legislature kept it to reduce the state's budget deficit.

HB2264 contains an emergency clause which means that once the bill passes the Senate (with at least 20 out of 30 Senators voting in favor) and it gets signed by Governor Brewer, it will become law. When this occurs, the rate will go back to 50/50 (this could even happen during this current school year). Thus, the amount owed employees will be for the duration of July 1, 2011 until the bill is signed into law and the rate returns to 50/50.

There is an appropriation of \$32.7 million made in this bill that the Arizona Department of Education must return to school districts through the basic state aid allotment in order to repay school employees for the cost shift. The repayment to school employees must be made by September 30, 2012.

#### **Calculation of the return**

Multiply your salary by .63% to get a rough estimate of the amount that will be returned to you.

For example, if your annual salary is \$40,000 per year, your return will be approximately \$252 (if the unconstitutional 53/47 split stayed in effect for the full fiscal year)

$$\$40,000 \times .0063 = \$252$$

Explanation:

The 3% retirement contribution rate shift resulted in an employer contribution rate of 9.87% and an employee contribution rate of 11.13%. The total of the two rates is 21%. If that were divided 50/50, each would be paying 10.5%. Subtracting what the employee would pay under a 50/50 arrangement from what the employee is paying under the 53/47 arrangement yields a difference of .63% of earnings over a 12 month period (11.13% - 10.5% = .63%).

Depending on when HB2264 is signed into law, affects the amount of money that will be returned to each employee. For example, if the rate returns back to 50/50 in May 2012, then the following calculation would apply because there are two pays remaining in the fiscal year (2 pays in June 2012):

Example:

$$\$40,000 \times .0063 = \$252$$

$\$252 \times 11/12 = \$231$  is the approximate return amount if the rate is set back to 50/50 by May 2012.

Once the bill is signed into law, the AEA will be able to give a more accurate estimate on the return amount per employee.

The refund will be subject to the usual tax withholding and is treated as taxable wages in calendar year 2012.

The AEA will work with local associations and school districts in requesting a separate pay check for this money for each employee. The money must be returned to employees by September 30, 2012.