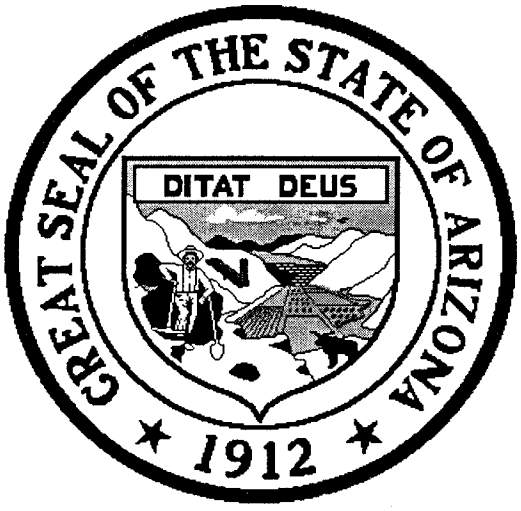
Joint Legislative Study Committee



State Retirement Systems

1995

Final Report

Joint Legislative Study Committee on State Retirement Systems

Background

Laws 1995, Chapter 205 established the Joint Legislative Study Committee on State Retirement Systems to analyze various issues affecting Arizona's four state retirement systems: the Arizona State Retirement System [ASRS]; the Public Safety Personnel Retirement System [PSPRS]; the Corrections Officer Retirement Plan [CORP]; and the Elected Officials' Retirement Plan [EORP]. [Attachment A]

MEMBERSHIP

Senator Spitzer, co-chair	Representative King, co-chair
Senator Springer	Representative Burns
Senator Burns	Representative Daniels
Senator Chesley	Representative Blendu
Senator Hardt	Representative Armstead
Senator Solomon	Representative Foster
Senator Chastain	Representative Cunningham

Committee Staff:

Randie Stein, Senate	Lisa Barnes, House

RESPONSIBILITIES

The Study Committee was charged with recommending ways in which the benefits and other provisions under each of the state retirement systems should be equalized and determining those areas where differences are justified. In making its recommendations and determinations, the Study Committee was required to consider the following:

* retiree health insurance premium subsidy amounts;
* minimum benefit amounts;
* qualifications for normal and early retirement;

* formulas used to calculate retirement benefits;
* post-retirement benefit increases [COLAs];
* transfer provisions between retirement systems; and
* any other benefit or provision determined necessary for consideration by the Committee.

Additionally, the Study Committee was responsible for studying the following:

* the policy of providing tax equity "hold harmless" benefit increases in response to the taxation of pension income;
* requesting a legal determination of the State's liability, if any, to retirees resulting from a change in the taxation of pension income and a fiscal analysis of any determined liability;
* the differences between defined benefit retirement plans and defined contribution plans and whether the State should consider establishing a defined contribution plan;
* the advantages and disadvantages of providing early retirement incentives, commonly referred to as "retirement windows"; and
* any other issue determined necessary for consideration by the Committee.

REPORT

The Study Committee was required to submit a report of its findings and recommendations, including any proposed legislative changes, to the Governor, the Senate President and the Speaker of the House by October 31, 1995.

TERMINATION

The Study Committee terminates December 31, 1995.

Proceedings

Prior to the Committee's first meeting, Committee members received a notebook to assist in their deliberations containing the following information:

- Background Information Regarding the Committee
- Enabling Legislation
- Comparison Chart of State Retirement Systems
- Description/Historical Recap of the Retiree Health Insurance Program
- Description of Minimum Benefit Provisions
- Description of Normal and Early Retirement Requirements
- Description of Benefit Calculations
- Description of Post-retirement Benefit Increases (COLAs)

- Description of Transfer Provisions
- Description/Historical Recap of Tax-equity Benefit Increases
- Description of Defined Benefit and Defined Contribution Plans
- Description of Retirement Windows
- ASRS Materials
- PSPRS Materials
- CORP Materials
- EORP Materials
- Comparison Reports of Other States' Retirement Systems
- NCSL Public Pension Guide for Legislators

The Study Committee held three public meetings as follows:

September 15, 1995 [Attachment B]

During the Committee's first meeting, presentations were made by representatives of the four state retirement systems to familiarize members with the differences and similarities between retirement systems. Leroy Gilbertson, Director of the Arizona State Retirement System, made the presentation on behalf of ASRS, after which Michael Carter, representing the Watson Wyatt Worldwide Company, conducted a slide presentation on the Actuarial Aspects of the Arizona State Retirement System. Jack Cross, Administrator for the Public Safety Personnel Retirement System (PSPRS), the Corrections Officer Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP), made the presentation on behalf of the three retirement programs he administers. Following formal presentations, the Committee heard testimony from members of the public concerning the retirement issues they would like to see the Committee address.

October 5, 1995 [Attachment C]

The Committee was informed during its second meeting that the House Government Operations and Senate Finance Committee of Reference had conducted a hearing to consider the Auditor General's findings and recommendations concerning the Arizona State Retirement System, the Public Safety Personnel Retirement System and the Elected Official's Retirement Plan. The hearing was held as part of the "sunset review" of the state retirement systems. The Committee of Reference recommended continuation of ASRS, PSPRS and EORP and further recommended that the Corrections Officer Retirement Plan be added to the same sunset schedule as the other three retirement systems. Committee members were given copies of the Auditor General's performance audits of the state retirement systems.

Committee members then heard testimony from persons interested in the various state retirement systems. Most comments urged legislative enactment of various retirement proposals, primarily benefit enhancements. Staff was asked to summarize the proposals that had been submitted for the Committee's consideration.

October 26, 1995 [Attachment D]

During the Committee's final meeting, Committee members reviewed, but took no formal action on, the handout prepared by staff summarizing all of the retirement proposals submitted for the Committee's consideration during previous public testimony. [Attachment E] Also, public testimony was received from individuals whose proposals were not presented during prior Committee hearings and therefore were not included in the handout of retirement proposals.

Recommendations

The Co-Chairmen of the Committee specifically noted during their final meeting that the Committee would not make any formal recommendations. Rather, Committee members were advised they may individually sponsor legislation during the next legislative session to incorporate any desired recommendations.

Attachments

Attachment A . . . . . Enabling legislation
Attachment B . . . . . September 15, 1995 Minutes
Attachment C . . . . . October 5, 1995 Minutes
Attachment D . . . . . October 26, 1995 Minutes
Attachment E . . . . . Retirement Proposals Handout

Attachment A

Enabling Legislation

JOINT LEGISLATIVE STUDY COMMITTEE ON STATE RETIREMENT SYSTEMS

(Laws 1995, Chapter 205; SB 1221)

Sec. 15. Joint legislative study committee on state retirement systems; members; duties; report

A. The joint legislative study committee on state retirement systems is established for the purpose of analyzing issues affecting the Arizona state retirement system, the public safety personnel retirement system, the corrections officer retirement plan and the elected officials' retirement plan.

B. The joint legislative study committee on state retirement systems shall consist of the following members:

1. The chairperson of the senate finance committee to serve as co-chairperson.

2. The chairperson of the house of representatives government operations committee to serve as co-chairperson.

3. The chairperson of the senate appropriations committee.

4. The chairperson of the house of representatives appropriations committee.

5. Five additional members of the senate appointed by the president of the senate and five additional members of the house of representatives appointed by the speaker of the house of representatives. No more than two of the additional members of each house may be members from the majority party.

C. The committee shall recommend ways in which the benefits and other provisions under each of the state retirement systems should be equalized and determine those areas where differences are justified. In making recommendations and determinations, the study committee shall consider the following:

1. Retiree health insurance premium subsidy amounts.

2. Minimum benefit amounts.

3. The qualifications for normal and early retirement.

4. The formulas used to calculate benefits.

5. Post-retirement benefit increases.

6. Provisions for transfer between state retirement systems.

7. Any other benefit or provision determined necessary for consideration and study by the committee.

D. In addition to the study items listed under subsection C of this section, the committee shall also study the following:

1. The policy of providing tax equity "hold harmless" benefit increases in response to the taxation of pension income. The study committee shall request a legal determination of the state's liability, if any, to retirees and a fiscal analysis of any determined liability.

2. The differences between defined benefit plans and defined contribution plans and whether the State of Arizona should consider establishing defined contribution plans.

3. The advantages and disadvantages of providing early

retirement incentives, commonly referred to as "retirement windows."

4. Any other issue determined necessary for consideration and study by the committee.

E. The committee shall make recommendations concerning each of the listed study items and submit a report of its findings and recommendations, including proposed legislative changes, to the governor, the president of the senate and the speaker of the house of representatives on or before October 31, 1995.

Sec. 18. Repeal

Section 15 of this act is repealed from and after December 31, 1995.

The Committee Terminates: December 31, 1995.

Members:

1. (R) Spitzer — The chairperson of the Senate Finance Committee to serve as co-chairperson.

2. (R) King — The chairperson of the House Government Operations committee to serve as co-chairperson.

3. (R) Springer — The chairperson of the Senate Appropriations Committee.

4. (R) Burns — The chairperson of the House Appropriations committee.

Five additional members of the Senate appointed by the President. No more than two of the additional members may be members from the majority party.

5. (R) Burns

6. (R) Chesley

7. (D) Hardt

8. (D) Solomon

9. (D) Chastain

Five additional members of the House of Representatives **APPOINTED BY THE SPEAKER**. No more than two of the additional members may be members from the majority party.

10. (R) Daniels

11. (R) Blendu

12. (D) Armstead

Attachment B

September 15, 1995 Minutes

Keep this

ARIZONA STATE LEGISLATURE
Forty-second Legislature - First Regular Session

JOINT LEGISLATIVE STUDY COMMITTEE ON STATE RETIREMENT SYSTEMS

Minutes of Meeting
Friday, September 15, 1995
House Hearing Room 2 - 9:30 a.m.

(Tape 1, Side A)

Cochair King called the meeting to order at 9:45 a.m. and roll was called by the secretary.

Members Present

Senator Chastain
Senator Solomon
Senator Spitzer, Cochair

Representative Armstead
Representative Blendu
Representative Burns
Representative Cunningham
Representative King, Cochair

Members Absent

Senator Burns (excused)
Senator Chesley
Senator Hardt (excused)
Senator Springer (excused)

Representative Daniels
Representative Foster

Speakers Present

Lisa Barnes, Committee Research Analyst, House of Representatives
Leroy Gilbertson, Director, Arizona State Retirement System (ASRS)
Michael Carter, Actuary, Arizona State Retirement System (ASRS), representing the Watson Wyatt Worldwide Company (formerly The Wyatt Companies)
David Smith, Registered Lobbyist, University of Arizona Retiree Association
Jack Cross, Administrator, Public Safety Personnel Retirement System (PSPRS), Corrections Officer Retirement Plan (CORP), and Elected Officials' Retirement Plan (EORP)
Chuck Torrie, nineteen-year veteran of the Department of Public Safety (DPS); State President, Fraternal Order of Police (FOP)
Mike Bielecki, President, Professional Fire Fighters of Arizona
Bev Cuthbertson, President, Arizona Education Association - Retired (AEA-R)
Peter Dunn, Attorney, Arizona Judges' Association (AJA)
Laura Krause, Employee Relations Officer, Arizona Department of Corrections (ADC)
Ballard Bullion, Phoenix resident, representing himself

Robert Stout, Parole Officer and Registered Lobbyist, representing American Federation of State, County and Municipal Employees (AFSCME); Coalition of Locals, Arizona Department of Corrections (ADC)
Larry Wendt, Deputy Chief, Maricopa County Sheriff's Office

* * *

Lisa Barnes, Committee Research Analyst, House of Representatives, referred to a binder (Attachment 1) on the state retirement systems and gave a synopsis of the information contained under the following subjects:

- Background Information
- Enabling Legislation
- Comparison Chart of State Retirement Systems
- Retiree Health Insurance
- Minimum Benefit Provisions
- Normal and Early Retirement Requirements
- Benefit Calculations
- Post-retirement Benefit Increases (COLA's)
- Transfer Provisions
- Tax-equity Benefit Increases
- Defined Benefit and Defined Contribution Plans
- Retirement Windows
- Other Issues
- Recommendations/Final Report
- ASRS Materials
- PSPRS Materials
- CORP Materials
- EORP Materials
- Comparison Reports of Other States' Retirement Systems
- NCSL Public Pension Guide for Legislators
- Committee Meeting Notices and Minutes

Cochair King mentioned that there are many opposing viewpoints with regard to the state retirement systems and requested that everyone please keep an open mind.

Leroy Gilbertson, Director, Arizona State Retirement System (ASRS), with the aid of an overhead projector, conducted a presentation on the following information:

- Arizona State Retirement System (ASRS) - Purpose / History / Benefits / Active Membership / Funding as of June 30, 1994 / 1993 Auditor General Performance Audit Findings / Auditor General Recommendations
- Investments
- ASRS Benefit Payments and Contributions Received
- ASRS Net Income From Investments
- ASRS Total Rate of Return
- ASRS Rate of Return
- ASRS Contribution Rates

(Hard copy of presentation included as Attachment 2.)

Senator Chastain asked why the university professors have the option of choosing a retirement system other than ASRS. Mr. Gilbertson explained that the Teachers Insurance, Annuities Association/College Retirement Equity Fund (TIAA/CREF) is a program available across the country to university professors.

In response to Senator Chastain, Mr. Gilbertson indicated that the state pays a seven percent contribution rate for TIAA/CREF.

Senator Chastain pointed out that some professionals have complained that the state will pay a seven percent contribution rate for some retirement plans but not for others.

Mr. Armstead expressed concern over the plan to bring the investment function in-house and asked whether ASRS has projected the amount which will be lost during the staff training period. Mr. Gilbertson pointed out that ASRS's rate of return over the past few years is exactly the same as the market rate -- an indication that the active managers which everyone believes are so critical have not actually added any value.

Cochair Spitzer asked whether it is true that fixed income investments can carry as great a risk as equity investments. Mr. Gilbertson agreed and said there is as much volatility in the fixed income market as there is in the equity market.

In response to Cochair Spitzer, Mr. Gilbertson said that up until 1994, ASRS was locked into investing sixty percent in equity and forty percent in bonds. He added that the legislature has changed this to allow an eighty percent investment in equity.

Cochair Spitzer remarked that this legislation was criticized by many who did not understand that the flexibility is necessary. He mentioned that his law firm has paid large commissions to equity managers who have performed extremely poorly. He added that those who are quick to criticize ASRS should take into consideration that it performs above the market rate while many in the private sector have not done nearly as well.

With regard to ASRS funding as of June 30, 1994, Mr. Cunningham inquired as to the assets available for benefits. Mr. Gilbertson replied that this information will be available within a couple of months.

Mr. Gilbertson invited Committee and staff members to witness a demonstration of ASRS's software.

Michael Carter, Actuary, Arizona State Retirement System (ASRS), representing the Watson Wyatt Worldwide Company (formerly The Wyatt Companies), conducted a slide presentation of a booklet entitled Actuarial Aspects of the Arizona State Retirement System. He briefly reviewed information on the following subjects:

- Characteristics of a Defined Contribution (DC) Plan
- Basic Types of Retirement Plans
- Characteristics of a DC Plan

- Characteristics of a Defined Benefit (DB) Plan
- How the Pension Plan Works
- The Plan's Time Horizon
- Function of the Actuary
- Actuarial Liabilities
- Types of Actuarial Contingencies
- Value of Contingent Benefits
- Present Value and Investment Return
- Concept of Present Value
- Present Value and Investment Return

(Tape 1, Side B)

- The Valuation Process
- Actuarial Assumptions
- Types of Actuarial Assumptions
- The Valuation Process
- Implications of Measurement Process
- What Actuary Looks For
- Component of Actuarial Cost
- Using the Home Mortgage Analogy

(Hard copy of presentation included as Attachment 3.)

Mr. Cunningham inquired as to the maximum variance which would occur between two actuarial firms conducting separate actuarial studies of ASRS. Mr. Carter estimated that if both companies are supplied with identical information, their reporting should vary by only one or two percent. He added that the recommendations should vary by only three to five percent.

Cochair King noted that actuarials price ASRS's buy-back provision for military service extremely high. Mr. Carter replied that the cost assessed on the service buy-back provision represents no cost to the retirement system.

David Smith, Registered Lobbyist, University of Arizona Retiree Association, gave a recap of the retirement systems available to university professors and reported that his group is very pleased with management of ASRS. With regard to health insurance subsidies, he said that the requested increase of $30-$50 per month will help the individuals who chose to sign over their Medicare benefits in favor of making their own health care decisions.

Dr. Smith shared his belief that employers should assume the actuarial cost of providing the five-percent window.

Jack Cross, Administrator, Public Safety Personnel Retirement System (PSPRS), Corrections Officer Retirement Plan (CORP), and Elected Officials' Retirement Plan (EORP), distributed a handout (Attachment 4) containing a listing of his credentials and detailed information on each of the retirement systems, and reviewed the same for the Committee.

Senator Solomon asked whether a member of CORP could take another state job and transfer into ASRS without penalty. Mr. Cross explained that since CORP has a higher contribution rate, a person could transfer from CORP to ASRS without any additional cost. He added that all four retirement systems are governed by a statute which allows for transfer among the systems.

Senator Chastain asked if a transfer from CORP into ASRS will take into account the extra four percent paid under CORP. Mr. Cross replied that there is no such adjustment for this difference in contribution rates. He remarked that not many people make this type of transfer.

Senator Chastain questioned why legislators even need a retirement system since they can only serve for eight years.

Cochair Spitzer mentioned that Senator Chesley, who was unable to attend, submitted a letter which enters the following point into record:

- Judges in Maricopa and Pima County should not be included in EORP because they are not elected officials.

Chuck Torrie, nineteen-year veteran of the Department of Public Safety (DPS); State President, Fraternal Order of Police (FOP), said that as a result of legislative efforts and fund managers, Arizona has one of the best retirement systems in the nation. He mentioned that in attending retirement conferences throughout the country, it is often the case that conference participants learn from Arizona's example.

Mr. Torrie noted that PSPRS protects the public servants (e.g., fire fighters, police officers, corrections officers) who constantly run the risk of not returning home each night. In addition, he said that PSPRS also protects the wives, husbands and children of public servants who are not capable of finishing the twenty-year program.

In response to Cochair King, Mr. Torrie explained that fire fighters and certain police agencies, as groups, opted to leave the social security system.

Cochair Spitzer asked if these groups have Medicare withholding. Mr. Cross explained that persons hired prior to 1986 do not participate in the Medicare program while those hired after 1986 must participate.

Cochair King inquired as to the rationale for opting out of the social security and Medicare programs. Mr. Torrie indicated uncertainty.

Mr. Torrie requested that the FOP have an opportunity at the next meeting to submit specific agenda items geared toward fine-tuning PSPRS.

Mike Bielecki, President, Professional Fire Fighters of Arizona, recalled that in his twenty years as a fire fighter, he has dropped through roofs and made exits through windows in addition to

being shot at. He emphasized that PSPRS was developed in the sixties when the legislature recognized the increasingly hazardous nature of enforcing public safety.

Mr. Bielecki distributed prepared comments (Attachment 5) with regard to the purpose and cost of PSPRS and reviewed them with the Committee.

(Tape 2, Side A)

Senator Chastain clarified that he has no qualms over officers and fire fighters retiring in twenty years. Senator Solomon pointed out that some teachers in kindergarten are at risk today as well.

In response to Cochair King, Mr. Bielecki explained that the Davis v. Michigan supreme court ruling provides that the pensions of different classes of public retirees (federal, state and local) cannot be taxed differently. As a result, he said that the state began taxing existing and future retirees at the state and local levels because the very costly alternative would have been to remove the tax on federal employees.

Bev Cuthbertson, President, Arizona Education Association - Retired (AEA-R), stated that ASRS retirees who contributed at seven percent to overfund the system feel that their money is used to pay the current contribution rate which creates fund inequity between current retirees and future retirees.

Peter Dunn, Attorney, Arizona Judges' Association (AJA), mentioned that judges are members of EORP and distributed a letter (copy not available) which suggests specific equitable changes within EORP.

Mr. Dunn requested that the Committee consider establishing an excess earnings cost of living adjustment (COLA) for EORP which will only activate when fund earnings exceed nine percent. He further suggested that the Committee bring the EORP health insurance subsidy in conformance with the other plans and establish a Rule 80.

Laura Krause, Employee Relations Officer, Arizona Department of Corrections (ADC), distributed a briefing paper (Attachment 6) and mentioned that ADC has members in CORP and ASRS. She explained that different positions are covered by different retirement plans and that as ADC employees advance into different positions, their retirement credit becomes spread between two systems and they are unable to retire as quickly. She added that the only way to combine the two services is for the employee to either pay the actuarial present value of CORP or ASRS, or take a reduced service credit.

Ms. Krause requested that ADC be listed on a future agenda and given an opportunity to discuss resolutions to this problem.

In response to Senator Chastain, Ms. Krause shared her understanding that teacher salaries within ADC are significantly lower than teacher salaries within the Department of Juvenile Corrections. She noted that proposals are being considered for the next legislative session.

Ballard Bullion, Phoenix resident, representing himself, in the interest of time, offered no additional comments to previous testimony.

Robert Stout, Parole Officer and Registered Lobbyist, representing American Federation of State, County and Municipal Employees (AFSCME); Coalition of Locals, Arizona Department of Corrections (ADC), reported that in 1996 his organization will propose legislation to increase the CORP contribution rate. He mentioned that ADC often hires people over fifty and occasionally hires the disabled and, for these reasons, requested that the disability language not be loosened because it would be extremely detrimental to the goal of a twenty-year retirement.

Larry Wendt, Deputy Chief, Maricopa County Sheriff's Office, distributed a copy of H.B. 2451 from the previous legislative session and requested an opportunity to discuss the legislation at a future meeting.

With regard to Davis v. Michigan, Cochair King suggested that perhaps the Department of Revenue (DOR) will be able to provide the Committee with correct information.

Without objection, the meeting was adjourned at 12:03 p.m.

Teresa Alvarez

Teresa Alvarez, Secretary

(Original minutes, attachments and tapes on file in the Office of the Chief Clerk.)

Attachment C

October 5, 1995 Minutes

ARIZONA STATE LEGISLATURE
Forty-second Legislature - First Regular Session

JOINT LEGISLATIVE STUDY COMMITTEE ON STATE RETIREMENT SYSTEMS

Minutes of Meeting
Thursday, October 5, 1995
Senate Hearing Room 1 - 10:00 a.m.

(Tape 1, Side A)

The meeting was called to order at 10:13 by Cochairman King and attendance was noted by the secretary.

Members Present

Senator Chesley
Senator Chastain
Senator Hardt
Senator Solomon
Senator Springer
Senator Spitzer, Cochairman

Mr. Armstead
Mr. Blendu
Mr. Burns
Mr. Cunningham
Ms. Daniels
Mrs. Foster
Mr. King, Cochairman

Members Absent

Senator Burns

Speakers Present

Randie Stein, Research Staff Director, Arizona State Senate
Don Isaacson, Attorney, representing State Fraternal Order of Police (FOP)
Laura Krause, Employee Relations Officer, Arizona Department of Corrections (ADC)
Dr. Robert Letson, representing University of Arizona Retirees Association, Tucson
Pete Dunn, Attorney, representing Arizona Judges Association
Bev Cuthbertson, representing Arizona Education Association
Edith Christy, representing Arizona Retired Teachers Association
Ronald Murphy, State Legislative Chairman, Arizona Retired Teachers Association
Joseph Young, representing himself, Tempe
Kevin McCarthy, President, Arizona Tax Research Association (ATRA)

Ed Wren, representing Arizona Highway Patrol Association
Larry Wendt, Deputy Chief, Maricopa County Sheriff's Office (MCSO)
Robert Stout, Parole Office, representing American Federation of State, County and Municipal Employees (AFSCME) Coalition of Locals in the Arizona Department of Corrections (ADC)
Mike Bielecki, President, Professional Fire Fighters of Arizona
Sergeant Chuck Torrie, Arizona Department of Public Safety (DPS); President, State Fraternal Order of Police (FOP)
Scott Simmons, Chairman, Arizona Fraternal Order of Police (FOP) Political Action Committee (PAC)

Guest List (Attachment 1)

Randie Stein, Research Staff Director, Arizona State Senate, noted that a sunset review document was distributed to the members' offices yesterday. She indicated that sunset review hearings were held on the following agencies earlier in the week:

- Arizona State Retirement System (ASRS): The four findings of the Auditor General's Office were presented and discussed. The Director of ASRS, LeRoy Gilbertson, was present to respond to questions. A recommendation was made by the committee that the agency be continued for another ten years.

- Public Safety and Personnel Retirement System (PSPRS) and the Elected Officials Retirement Plan (EORP): The findings for these systems were reported together by the Auditor General's Office and discussed together by Jack Cross, Administrator. A recommendation was made by the committee to continue the two agencies for ten years.

In conjunction with that, the committee recommended that auditing of the Corrections Officer Retirement Plan (CORP) be placed on the same cycle as the others.

Ms. Stein relayed the charge of the Joint Legislative Study Committee on State Retirement Systems.

Cochairman King reminded everyone that not too long ago an article was written, and public service TV had a presentation, showing that other states in the country are having problems with their retirement programs, but, he added, Arizona is not one of them. He opined that the state has been very fiscally responsible with its retirement investments.

Don Isaacson, Attorney, representing State Fraternal Order of Police (FOP), addressed the committee (Attachment 2). He answered questions of Senator Chesley and Senator Solomon concerning his testimony.

Mr. Isaacson stated that CORP is part of an overall strategy to decrease turnover and increase professionalism within the Arizona Department of Corrections (ADC) as well as in the Corrections Departments in the counties. He said he met with Jack Cross and they determined that the strategy that applies to pensions and increases in salaries has lengthened the average term of employees in ADC. He noted that last year the Legislature appropriated $8 million in an effort to upgrade positions within ADC and create more supervisory positions to provide more career opportunities for Corrections Officers.

He opined that PSPRS is a good, generous, and sound system. He explained that CORP is a retirement system for prison guards who were entitled to be in the public safety system but were never funded. He surmised that this may have been due to the cost. He noted that the CORP system was developed by former Representative Jim Ratliff; it was intended to be a system halfway between the PSPRS and ASRS. He said the original minutes from meetings in which CORP legislation was passed stated that it was implemented to increase professionalism, reduce turnover, reduce turnover costs, etc. He added that Mr. Ratliff hoped that in time the system would be built up to become more like PSPRS.

Mr. Isaacson noted that the accrual rate of benefits in PSPRS is 2.5 percent per year. In CORP, it used to be 2 percent per year and has been raised to 2.2 percent. He suggested that consideration be given to increasing the accrual rate in CORP so that it is similar to the rate in PSPRS. He indicated that although there have been some successes due to the changes he has mentioned, there is still a high turnover rate, and this would help. He said he met with Jack Cross who indicated that if the accrual rate is changed to 2.5, the system would remain 100 percent funded.

Cochairman King reminded the committee that the Davis v. Michigan Department of Treasury decision was an all inclusive one, and because of a malfunction between the Department of Revenue (DOR) and those who pay taxes, not all of the federal employees (about 20,000) received their tax benefits. He said an effort will be made this year to insure that those people do receive them. He noted that one of the caveats of the Supreme Court decision was that the state will raise no false barriers to providing tax equity.

Laura Krause, Employee Relations Officer, Arizona Department of Corrections (ADC), provided several suggestions relating to CORP. She explained that approximately 80 percent of ADC employees are in CORP, and 20 percent are in ASRS. Because employees move from one to the other receiving credit in both systems, they are not able to retire as expected. She asked that consideration be given to the following proposals:

- Allow employees in that situation to transfer credits from one system to the other with little cost or activation of a monthly payment plan.

- Allow some flexibility in statute so that employees moving back and forth are not required to participate in one of the retirement systems.

- Allow retirement eligibility to be determined by the combined years of service in ASRS and CORP; maybe a check could be issued by both systems.

- Include chaplains and librarians in the CORP plan.

- Provide a monthly payment plan for employees who want to buy back military service for incorporation in CORP.

- Permit sick leave balances to be used toward retirement eligibility.

Ms. Krause clarified for Senator Springer that chaplains and librarians have direct inmate contact with prison inmates on a regular basis, and there are approximately 30 employed by ADC.

Senator Springer speculated that chaplains and librarians are well protected when they are in contact with a prisoner. She said she has not heard of any incidents involving their personal safety.

Senator Chastain stated that he introduced a bill two years ago in the House to allow chaplains and librarians in CORP. There was some discussion but the bill was not heard. He said that salaries of teachers in the prison system average around $10,000 a year less than that of teachers in the regular system which does affect the retirement system. He stated that this should be reviewed.

Dr. Robert Letson, representing University of Arizona Retirees Association, Tucson, reviewed a handout concerning suggestions relating to ASRS (Attachment 3). He answered questions of the Members concerning contribution rates, excess earnings, and an annuity option.

(Tape 1, Side B)

Mr. Cunningham noted that Dr. Letson was designated by the Dean of the College of Education as the representative for the legislative intern program and was responsible for recruiting very qualified and competent people to serve in the Legislature. He commended him for his efforts in that capacity.

Pete Dunn, Attorney, representing Arizona Judges Association, stated that in 1985 the Judges Association Retirement Plan was merged with the Elected Officials Retirement Plan (EORP). He noted there has recently been some discussion about separating the two groups. He offered suggestions to bring these plans into conformity with the other plans:

- Reinstate the excess earnings Cost-of-Living Adjustment (COLA) in the EORP (which includes judges).

- Increase the health insurance subsidy which is presently $60 and $25 to the level of ASRS. These retirees are facing horrendous health insurance costs and should be given the same level of subsidy as ASRS retirees.

- Provide a Rule of 80, i.e. if the employee's age and years of service total 80, the employee can assume normal retirement.

Senator Spitzer assumed the Chair.

Senator Spitzer noted that judge participation in the combined plan is difficult because elected officials are reluctant to enhance benefits that will provide an advantage to them. He asked how many of the Association members are attorneys in private practice with vested rights under their law firm pension plans, and how many are in government service, either state or federal, and participate in a state or federal plan in addition to accruing benefits under EORP during tenure on the bench.

Mr. Dunn said he can provide those figures. He noted that more and more public sector lawyers are becoming judges as opposed to those in the private sector. He recognized the problem of having judges in EORP, and explained that in 1985 the judges' plan was substantially overfunded and EORP was substantially underfunded so the two were combined. He expressed a desire to discuss separation of the two plans.

He explained to Mr. King that the excess earnings COLA provision expired in June of 1994, and a committee chairman in that session chose not to hear a bill that would extend it.

Senator Spitzer asked Mr. Dunn to compile a representative profile of the Association's membership with a recommendation as to whether or not it is in judges' long-term interest to remain in EORP or if they should enroll in ASRS. Mr. Dunn agreed to provide that information.

Bev Cuthbertson, representing Arizona Education Association, read from a prepared handout relating to ASRS (Attachment 4).

Edith Christy, representing Arizona Retired Teachers Association, reviewed a handout regarding ASRS (Attachment 5). She pointed out that the last two pages show that in 1990 when the contribution rate was 2 percent, it did not begin to cover the benefit payments. She noted that the Retirement Board and Advisory Council have made good investments and should be given credit for that.

Senator Spitzer pointed out that the chart showing the gap between benefits and contributions does not reflect income earned by the system.

Ms. Christy added that her husband retired in 1975, and she retired in 1977; they both took out ten-year certain. He died in 1982 (five years after retiring) so she received his benefits for five more years. She noted that her benefits are lower than his, and she no longer has the assistance of his retirement pay. She expressed interest in Dr. Letson's "pop up" provision for other people in the same situation.

Ronald Murphy, State Legislative Chairman, Arizona Retired Teachers Association, spoke in support and appreciation of the presentations given by Ms. Cuthbertson and Ms. Christy. He said the habit of toying with contribution rates in the retirement system fund from going to a low of 2 percent, to 3.5 to 3.75 percent in recent years, combined with intermittent special windows for early retirement opportunity, seemed to be convenient ways to offset the fiscal impact of projected revenue for the state but they are actually inequities. He opined that an actuarially sound rate should be established and remain fairly stable to allow retirees now and in the future to meet inflation and health needs that they might encounter.

(Tape 2, Side A)

Kevin McCarthy, President, Arizona Tax Research Association (ATRA), opined that the ASRS and PSPRS are both sound systems. He opined that equity across the systems is not needed. If there is a need to have better benefits in the PSPRS, those benefits do not need to apply to the ASRS if it is not needed.

He said a great change would be to have retirement bills go through the Appropriations Committees. He said it is amazing that the Appropriations Committees can be grieving over $200,000 on an issue while the Finance or Government Operations Committees are passing retirement changes which, because they do not have to be prefunded, might result in first-year employer costs in excess of $1 million.

Mr. McCarthy suggested that the members read the performance audit on the ASRS, noting that the presentation to the sunset committee pointed out that the days of providing benefit increases for free are over; so are the days of low actuarial rates. He said even if future benefit increases are not passed, escalating employer rates for the systems can be expected.

Discussion followed between Mr. McCarthy and the members regarding his testimony.

Ed Wren, representing Arizona Highway Patrol Association, submitted that the lives of the people in the PSPRS system are in danger every day which makes it a unique system. He said, unfortunately, there have been several deaths this year.

He noted that about half of the widows and widowers married to police officers or fire fighters do not have social security. He stated that a $750 check for sick leave is given to state employees upon retirement; it does not matter how many hours of sick leave have been accumulated. He added that most of the cities give a lump sum check based on a certain percentage of the number of remaining sick leave hours. He suggested that it would be fair to provide one extra year of retirement for those in the PSPRS who retire after 20 years without using sick leave. He said this would not affect the state budget.

Mr. Wren stated that currently an employee of the State of Arizona who quits or retires can remain with their health plan or enter a plan which is contracted by the state. He suggested that a window be provided to allow for a change in health care.

Larry Wendt, Deputy Chief, Maricopa County Sheriff's Office (MCSO), noted that legislation introduced last year was part of a financial recovery proposal for Maricopa County. He said it dealt specifically with a three-year retirement window for the Sheriff's Office which is similar to the retirement window offered as part of Project SLIM and the state financial recovery plan a few years ago.

He acknowledged that Maricopa County has had financial difficulties over the last few years. He said generally the younger, newer officers go to other police agencies that are in better financial condition. Because of that, in an organization like the Sheriff's Office, there are a large number of employees who are at the top of their pay scales because they have been there for many, many years. This results in a law enforcement agency which is a bit top heavy. It was proposed that the higher-paid senior officers and ranking employees be enticed out of the Sheriff's Office with a retirement incentive and replaced with entry level patrol deputies at lower salaries. This proposal was presented to the Maricopa County Board of Supervisors and approved. He anticipated that between $1.6 million and $3 million annually will be saved. He added that it will not reduce the amount of police service or affect the county retirement system (which is overfunded). He said the county will be required to reimburse the retirement system 100 percent for any employee who leaves. He indicated that this is a viable economic recovery plan and a good way to reduce staff in the Sheriff's Office effectively.

Mr. Wendt indicated to Senator Chesley that the Sheriff's Office does not have retired deputies working part-time in any capacity. He explained to Mr. Burns that in order to avoid the same situation in the future, all Major positions have been eliminated as these employees have retired,

and the number of Captain's positions has been reduced. The number of Lieutenant positions has also been reduced, and no promotions have occurred among the staff for the last two years.

Robert Stout, Parole Officer, representing American Federation of State, County and Municipal Employees (AFSCME) Coalition of Locals within the Arizona Department of Corrections (ADC), said that generally state employees who retire do not receive a $750 check unless at least 1,000 hours of sick leave have been accrued. He said this equates to 75 cents per hour, and after the Internal Revenue Service (IRS) receives its portion, it amounts to about 40 cents per hour.

He indicated that in the late 1970's, there were a couple of librarians killed in a prison escape in Texas. He said CORP covers at-risk employees which means those behind the walls who are subject to attack, rape, or murder. He noted that only three staff members have been murdered during his period of service. The work is not quite as deadly as that of police officers; however, the turnover rate does explain quite a bit about the nature of the work and the environment. He contended that spending eight hours per day working with the most dangerous criminals in Arizona is very stressful, and after 22 years, most people are a basket case.

Mr. Stout commented that CORP was established because FOP and DPS did not want ADC in their retirement system because they feared that it would cost too much money. He indicated a long-term goal to have 2.5 percent for each year of service and eventually going to 20-year retirement. He opined that this is not unreasonable and will actually save money in the constant recruitment, investigation, and training of new employees. He opined that the money in CORP is owned by the employees. He indicated that with the recent performance in the stock market, there is a distinct possibility that CORP will be sufficiently funded over 100 percent to go from 2.2 to 2.5 percent for each year of service. If not, less will be sufficient, and efforts will still be made to make gradual improvements while keeping the system funded at 100 percent.

He clarified for Mrs. Foster that CORP generally covers people behind the walls and parole officers working directly with people on parole or other forms of being in the community. The only groups left out at this point are chaplains and librarians and a few secretaries. Quite often those secretaries work in the central office in Phoenix, and some of them do not really want to be in CORE because they are not frequently working behind the walls.

Mike Bielecki, President, Professional Fire Fighters of Arizona, stated that the PSPRS is a valuable system, and the changes that have been made over the years have been of benefit. He said the actuaries have calculated cost figures which have been affixed to every retirement bill, and most of the changes that have been made have been absorbed through increased earnings of the system above the assumed yield of 9 percent.

He spoke in support of the hold harmless concept conveyed by Mr. Isaacson noting that it is an issue created from a court decision which affected systems nationwide. He said there was a

desire in a bill introduced last year to review increasing widows' benefits to seventy-five percent from the current two-thirds percent. He stated that most of the survivors are older and do not have the means to keep up with the cost of living and asked that this be considered.

Sergeant Chuck Torrie, Arizona Department of Public Safety (DPS); President, Fraternal Order of Police (FOP), stated that the people in FOP are very happy with the retirement system. He said he is also affected by the hold harmless clause and he would like to see that carried out. He pointed out that almost 100 percent of fire fighters do not contribute to the social security fund so the retirement from PSPRS is the sole retirement they receive. There are also a great number of police officers who do not contribute to social security/FICA.

(Tape 2, Side B)

Senator Spitzer indicated that federal law prohibits fire fighters from paying into social security.

Sergeant Torrie asked that consideration be given to the issue of increasing the minimum payment to retirees from $1,000 to $1,200.

He referred to A.R.S. 38-844 (B) for the committee's consideration. He explained that this statute currently precludes fire fighters or police officers from obtaining a medical or other disability retirement after their normal retirement date of 20 years. He related a scenario in which he has 19 years with the department and tonight at midnight will be his 20-year anniversary. At 11:30 p.m., he receives a call to respond to an officer down. He drives at a high rate of speed, loses control of the vehicle, and loses an arm. Because he has not yet met his 20-year retirement date, he is eligible for and would receive a medical disability retirement which has many benefits (includes COLA, tax break from federal government, etc.). If the accident happened 30 minutes later, he is not qualified for any of that, only for a normal retirement. He submitted that the employer is going to lose a wealth of experience when officers realize that it is not productive for them to stay out on the highway after 20 years.

Sergeant Torrie pointed out that even though the employee would not be eligible for medical disability according to statute, the statutes do show how the benefit is computed if an employee is in the department in excess of 20 years.

Cochairman Spitzer indicated that he would like staff to prepare a response to this and distribute it to all members of the committee.

Sergeant Torrie related that this issue was brought up by a real-life incident which occurred about three weeks ago. He clarified for Cochairman King that an employee can stay on active duty beyond 20 years, but after that, he is not eligible for disability.

Scott Simmons, Chairman, Arizona Fraternal Order of Police (FOP) Political Action Committee (PAC), testified that the counties in Arizona experience a tremendous attrition rate which translates in loss of millions of tax dollars from many hard-working taxpayers; Maricopa County and Pima County are the hardest hit. He said Maricopa County spends $1 million per year due to attrition of corrections officers, and Pima County spends $.5 million per year. He asked that the counties be allowed to decide at the county level if it is in the best interest of that county to move its corrections officers into the PSPRS with that particular county absorbing the cost. He reminded everyone that each group in public safety retains its own separate account within public safety.

He noted that corrections officers are locked in day after day with criminals brought to them by street officers. Their lives are constantly in danger, and they are subject to physical assaults. He said he is 43 and has suffered many minor injuries, as well as two major injuries, and he still has to contend with the inmates day after day.

Mr. Cunningham requested that a spreadsheet be prepared by the staff listing all of the changes requested by the various groups at this meeting, and showing the current law. The members agreed to hold another meeting.

Cochairman King insisted that the list prepared by staff be limited to 10 to 12 possible changes.

Without objection, the meeting adjourned at 1:10 p.m.

Linda Taylor

Linda Taylor, Committee Secretary

(Attachments and tapes are on file in the Office of the Chief Clerk.)

Attachment D

October 26, 1995 Minutes

ARIZONA STATE LEGISLATURE
Forty-second Legislature - First Regular Session
Interim Committee Meeting

JOINT LEGISLATIVE STUDY COMMITTEE ON STATE RETIREMENT SYSTEMS

Minutes of Meeting
Thursday, October 26, 1995
House Hearing Room 2 - 1:30 p.m.

TAPE 1, SIDE A

Cochair King called the meeting to order at 1:40 p.m. and the secretary called the role.

Members Present

Senator Brenda Burns
Senator Robert Chastain
Senator Larry Chesley
Senator A.V. "Bill" Hardt
Senator Ruth Solomon
Senator Carol Springer

Representative Robert Burns
Representative George Cunningham
Representative Lori Daniels
Representative Kathi Foster
Senator Marc Spitzer, Cochair
Representative Ned King, Cochair

Members Absent

Representative David Armstead (excused)
Representative Robert Blendu (excused)

Speakers Present

Lisa Barnes, Majority Research Analyst, Arizona House of Representatives
Tom Finnerty, Legislative Liaison, Arizona State Retirement System (ASRS)
Randie Stein, Research Director, Arizona Senate
Scott Smith, Legislative Liaison, Arizona Department of Corrections (ADC)
Ken Gerberry, Secretary/Treasurer, Maricopa County Deputies Association
Don Isaacson, representing Fraternal Order of Police (FOP)
Bev Cuthbertson, President, Arizona Education Association (AEA)
Jerry Doll, representing himself, Mesa
Moyne Jamison, Chair, Legislative Committee, Phoenix Retired Teachers Association
Chuck Torrie, State President, Fraternal Order of Police (FOP)

Guest list (Attachment 1)

Cochair King thanked House and Senate staff for their in-depth research efforts in compiling information for Members. By understanding the issues and some of the problems, he said the Committee can then address the inequities that consistently exist in the various systems.

Cochair Spitzer concurred with Cochair King's statements. He outlined the agenda for today's meeting: an explanation of the issues, discussion, and concluding with testimony. He said he would like to see a discussion in order to frame a debate for next session. In the past, legislation has been drafted to include all the systems. He said that consideration might be given to drafting legislation for each system.

Mr. Chastain asked if the plan is to wait until next session to introduce legislation, who will make the recommendations and is the Committee charged with making recommendations. Cochair King advised that Members are free to make any recommendations they desire.

In response to Mr. Chesley's query, Mrs. Barnes replied that a report from the Committee is due on October 31.

PRESENTATIONS:

Lisa Barnes, Majority Research Analyst, Arizona House of Representatives, called attention to the handout on retirement proposals (Attachment 2). She noted that the charts are in order of statutory items of which the Committee is charged. The charts show the proposals submitted during public testimony at previous meetings for each of the four State retirement systems: Arizona State Retirement System (ASRS), Public Safety Personnel Retirement System (PSPRS), Corrections Officer Retirement Plan (CORP), and Elected Officials Retirement Plan (EORP). She advised that she and Randie Stein, Senate Research Director, will review each of the proposals. There are comparison charts of each of the four systems in the binder on the State Retirement Systems which was distributed at the September 15, 1995 meeting and filed in the Chief Clerk's Office with the minutes of the meeting. In addition to comparison charts, the binder contains narrative and discussion of each of the sections, as well as an historical recap.

Mrs. Barnes reviewed the proposals (Attachment 2).

- **Retiree health insurance program and premium subsidy amounts**

Mrs. Barnes noted that under All Systems/Other, there were recommendations to equalize the subsidy amounts across all four systems and to open another window.

Mr Chesley asked whether these are defined benefits. Mrs. Barnes replied in the affirmative. In response to Mr. Chesley, Mrs. Barnes explained that a defined benefit plan is calculated based on years of service, salary and a multiplier. The pension amount for a defined contribution is calculated on salary and investment earnings.

Mr. Chesley stated that he will not support any bill containing a provision for windows. He asserted that he does not believe they do the State a good service.

To that point, Cochair Spitzer told Mr. Chesley that he is not sure the referred window is something to which he would object.

Mr. Cunningham asked what the economic impact is of increasing the medical subsidy by $30.

Tom Finnerty, Legislative Liaison, Arizona State Retirement System (ASRS), answered that the latest information is two years old, the last time an actuarial study was conducted. To present current data, another actuarial study will have to be made.

Mr. Chesley asked what the number was two years ago. Mr. Finnerty said he believes it increased the contribution rate from 3.36 to 3.60.

Mr. Chastain commented that the four medical plans are all different. He recommended that they should be equal. He said he would like to incorporate in a bill provisions for preMedicare and Medicare eligible, and set the amounts the same by bringing all the plans up to the highest amount.

Mrs. Solomon stated that she does not object to giving everybody more but because of the nature of the types of jobs, it is appropriate that there be differences. She said she is not sure that it is in anyone's best interest to make the plans equal. Before considering such a recommendation, she said she would like to have more information on cost comparisons relating to benefits and costs.

Cochair Spitzer concurred with Mrs. Solomon's comments. The systems are different, the nature of the employees are different, and the contribution rates are different. A subsidy increase would substantially increase the contribution rate for active members as well as impose a greater obligation on government. He stated that there should be fairness within the system. Each system should be fair, however, fair does not mean equal, it means equity. Equity and equality mean two different things

Mr Chastain brought up the fact that the fund was built up by employee contributions of seven percent Now that the fund is built up, the current rate is about four percent. He said this might be taken into consideration in this debate.

Cochair Spitzer responded that an expensive new program may be counterproductive.

Mrs Solomon asked whether there is any additional cost in excess of the $65 paid currently by the fund once a beneficiary is eligible for Medicare and is a member of an Health Maintenance Organization (HMO).

Mr Finnerty answered in the negative. He said that with the new contracts effective January 1, anyone who is Medicare eligible and who is receiving a subsidy or premium benefit, will not be paying more than the amount of the premium benefit.

- **Minimum benefit amounts**

Mrs. Barnes advised that the proposal to increase the PSPRS benefit would result in the benefit amount being double that of the ASRS benefit. Proposals submitted to change ASRS are: (1) base the minimum benefit on the years of service, (2) recalculate benefits to current purchasing power, and (3) recalculate all retirees' benefits if the two percent multiplier is increased.

TAPE 1, SIDE B

Mr. Chesley said he is not opposed to considering a plan to bringing someone up who retired 20 years ago, but he said he is opposed to bringing them up to purchasing power. He stated that it will be too costly.

Mr. Cunningham commented that current law is that the minimum benefit is $600 for a person who reaches age 75 with a minimum 20 years of service. He expressed concern that a person who serves less gets cut off and receives no minimum. He said he is exploring an approach where a percentage amount will be used to calculate the minimum benefit for someone with less than 20 years of service who is under 75 years of age.

Mrs. Burns opined that there is a lack of incentive to stay in the system if there is very little variation in the number of years served.

Randie Stein, Research Director, Arizona Senate, advised that in the past, there have been proposals for 15 years of service and 10 years of service. None of these proposals attained fruition.

Mrs Solomon pointed out that at the time of those proposals, very few people were involved and the fiscal impact was very small.

Ms Stein concurred. She noted the figures which were complied at that time are not valid now since the funding method was changed in 1994.

- **Qualifications for normal and early retirement**

Ms Stein reviewed current retirement eligibility:

> ASRS – Normal retirement at age 65; at age 62 with ten years of credited service, or when age and credited years of service equal 80. Early retirement at age 50 with at least five years of credited service.
>
> PSPRS – No provision for early retirement. Normal retirement upon completion of 20 years of service or at age 62 with 15 years of service.

CORP -- No provision for early retirement. Normal retirement with 25 years of credited service; at age 62 with ten years of credited service or when age and credited years of service equal 80.

EORP -- Normal retirement at age 65 with five years of credited service; at age 62 with ten years of credited service; or age 60 with 25 years of credited service. Early retirement at age 50 with ten years of credited service and must cease to hold office as an elected official.

Ms. Stein advised that ASRS proposals include: (1) retaining the existing criteria, and (2) recalculation of all retirees' benefits if criteria are changed. A recommendation to changing CORP to 20 years instead of the current 25 years was received, as well as a proposal to introduce a Rule of 80 points for EORP, instead of the current 85.

Mr. Chesley questioned why everyone is under the Rule of 80 except judges and elected officials. Ms. Stein advised that all of the systems started with 85 and have come down.

- **Formulas used to calculate retirement benefits**

Ms. Stein advised that the monthly benefit amount is 2 percent of the average monthly compensation multiplied by years of credited service; the PSPRS multiplier is a 2.5 percent formula; the formula used for CORP is 2.2 percent; and under EORP, 4 percent is the multiplier for credited service.

Proposals submitted include the following: (1) allowing unused sick leave to accrue as credited service for PSPRS, (2) increasing the multiplier from 2.2 percent to 2.5 percent for CORP, and (3) equalizing the multipliers for all the systems.

- **Post-retirement benefit increases**

Ms. Stein noted that the provision for post-retirement benefit increase was enacted by ASRS in 1994. To qualify, individuals must be at least 65 years of age and have been receiving benefits for at least one year. She said it is considered to be an excess-earnings COLA. Excess-earnings that are not used in a given year are available for the excess-earnings amount in the following year.

ASRS recommendations are to use excess earnings above eight percent and also to place the entire surplus into the fund available for providing the COLAs. There is no post-retirement benefit program for elected officials. A proposal was submitted to reinstate the COLA provision for EORP.

Cochair Spitzer reiterated that in a defined contribution plan, the risk of asset performance and rate inflation is on the contributor to the plan. In a defined benefit plan, the risk is on the State. The idea of a COLA is an effort to balance, where all the risk does not fall on one or the other. Other considerations include the interest of the active members versus the interest of the retirees, and the interest of governmental employers versus employees. He cautioned against a plan which pays out all the earnings in one year and leaves no excess earnings for the next year's retirees.

In reply to Mrs. Solomon, Mr. Finnerty advised that COLAs are received in January, retroactive to July. He explained that two checks are received; the regular benefit with the increase associated with the COLA and a second check that covers payments that should have been made from July 1 through December 31 without interest added on to that amount. Mrs. Solomon asked why the benefit is withheld for that six-month period. Mr. Finnerty answered that it relates to determining the exact amounts of money that are available. Mrs. Solomon suggested that speeding up the payment might be something the Committee might want to consider.

Mr. Kinnerty advised that the COLA increase this year will be $14.28 for each year of credited service, an increase of last year's $8.00.

Mr. Cunningham asked Cochair Spitzer whether using excess earnings above eight percent would violate the fairness concept.

TAPE 2, SIDE A

Cochair Spitzer opined that excess earnings of nine percent does not endanger the actuarial soundness of the fund; however, he said he cannot say that eight percent is wrong. Additional study is needed.

- **Transfer provisions between state retirement systems**

Mrs. Barnes advised that under current law, members of any of the four State retirement systems may transfer all or part of their credited service to their current retirement system upon mutual approval of the affected systems.

Recommendations have been received under CORP to allow the Department of Corrections Director to approve exceptions to CORP membership, and to provide a retirement mechanism for ADC employees with credited service in CORP and ASRS.

Mr. Cunningham stated that he believes this provision is the most deserving of consideration to achieve equity and balance.

Cochair King agreed with Mr. Cunningham's statement.

In response to Mr. Chesley, Mr. Finnerty explained the different ways a person can transfer from one retirement system to another. Mr. Chesley said he concurs with Mr. Cunningham that this is one of the issues that is important on a fairness basis.

Mr. Chastain commented that his constituency includes the Florence area and he knows of many instances where there have been problems in transfers. He said that he definitely believes changes should be made to address problems associated with transfers.

Cochair King said he believes that CORP needs to be restructured. One of the criteria for inclusion in the system is contact with prisoners. Some people have been overlooked. ADC would like to

include librarians and chaplains. He asked the ADC legislative liaison to read the list of people who are currently under the CORP system.

Scott Smith, Legislative Liaison, Arizona Department of Corrections (ADC), said that included in the CORP program are individuals who work in food service, nursing, physicians assistant therapists, corrections dental assistant hygienists, teachers and investigators, program officers, behavioral health treatment unit managers, medical assistants, corrections service officers, deputy wardens, assistant deputy wardens and superintendents.

- **The policy of providing "tax equity/hold harmless" benefit increases in response to the taxation of pension income**

Mrs. Barnes provided historical background. She said that in 1989, the United States Supreme Court ruled in Davis v. Michigan that states could not discriminate in the taxation of government pension incomes. Further, income tax exemptions offered by states to retired state and local employees were discriminatory if similar exemptions were not also offered to federal retirees. At that time, Arizona was taxing federal civil service pensions above $2,500 and fully taxing military pensions, but did not tax state and local government pensions.

In response to the Supreme Court decision, the Legislature amended the income tax law regarding pension taxation so that all federal, state and local pensions received an income tax deduction of $2,500. The Legislature also granted retirees of the four state retirement systems tax equity benefit increases to help offset pension income taxation.

Mrs. Barnes advised that proposals received include the following: continuing the policy of providing tax equity benefit increases, exempting federal, state and local pensions from taxation, applying tax equity benefit increases equally, and increasing the tax pension deduction from $2,500 to $15,000.

In response to a request received for a legal opinion as to the state's liability under a change in the tax law, Legislative Council provided the following Opinion: While there is no Arizona case law, it appears that the Legislature is not required to compensate State retirees for changes in the tax status of retirement benefits. The Constitution prohibits the Legislature from contracting away its taxation authority; therefore, the tax exempt status of retirement benefits is not a vested right.

In answer to Mr. Burns' query as to how the tax exemption benefit in these plans compares to the private sector plans, Mrs. Barnes replied that the Supreme Court decision dealt with government pension income.

Cochair King stated that Davis v. Michigan is the law of the land which says that there will be no barriers to repaying federal retirees. He reminded Members that the Department of Revenue has done just that and he said he would like to see it undone.

- **Defined benefit versus defined contribution retirement plans**

Ms. Stein explained the difference between defined benefit and defined contribution plans. Under a defined benefit program, the benefit is a formula that is in statute. Once an eligible employee reaches retirement status, the formula is used to calculate the benefit. What is fixed is the benefit. Under a defined contribution plan, the amount that the employee remits to the system is fixed. At the time the employee retires, the amount of the benefit is dependent upon the contributions as well as interest accrued.

Ms. Stein stated that the difference between the two plans is who bears the risk. Under the defined benefit program, the risk is borne by the entity providing the benefits. Under the defined contribution program, the risk is borne by the employee and is directly related to the investment performance. Currently all four systems are under the defined benefit plan. A very small number, perhaps 200 individuals, are under an old plan of defined contribution.

Cochair Spitzer reminded Members that this issue is one that the Committee was charged with looking into.

Cochair Spitzer asked whether it would be economically and financially possible to create a system where an individual could elect to stay in a defined benefit plan or in a defined contribution plan. Mr. Finnerty said it would be possible, depending on the type of program that would be set up. He opined that it probably would not be in the best interest of any employee to enter into a defined contribution plan because of the existing low contribution rate in the defined benefit plan.

Cochair Spitzer said that some individuals have expressed dissatisfaction with how the Legislature is handling the pension plans and would like the opportunity of electing to belong to a defined contribution plan. Consideration might be given to this option; however, he said he would not support any proposal to eliminate the defined benefit plan.

Mr. Chastain asked if this is not already being done in the university system. Mr. Finnerty stated that at the time of employment, an individual can make a choice whether to go into an optional retirement program or go into ASRS. This is for new faculty and administrators.

Members agreed to skip the issue of early retirement incentives ("windows".)

- **Other issues proposed for consideration by the Committee**

Mrs. Barnes reviewed other issues that did not fit into the aforementioned categories:

> ASRS -- (1) require financial disclosure by Board/Investment Advisory Council (IAC) members, (2) pay at least normal cost in employee/employer contributions, and (3) extend pop-up option to retirees who elect period certain and life annuity benefit options.
>
> PSPRS -- (1) increase surviving spouses pension from two-thirds to three-fourths of member's pension, and (2) allow disabled retirement eligible employees to take a disability pension.

TAPE 2, SIDE B

Relating to the disability issue, Mrs. Barnes said that when an individual in public safety with 20 years of service is disabled, he must take a retirement pension and not a disability pension.

Cochair King asserted that this is really an inequity issue that should be looked into.

> CORP -- (1) allow prison chaplains and librarians, currently in ASRS, to join CORP, and (2) allow county detention officers, currently in CORP, to join PSPRS.
>
> EORP -- (1) separate judges from the program.
>
> All Systems -- (1) extend statute of limitations for federal retirees' income tax claim, and (2) modify military buy-back conditions.

Mr. Cunningham expressed opposition to the financial disclosure requirement by Board and IAC members. He said he is working on an approach that tries to preserve the privacy of these individuals while having some financial disclosure.

Cochair King commented that the financial disclosure form does not reflect the morality nor ethics of the person.

Mrs Solomon commented that accounting of in-house investments is done only once a year. She said those who contribute to the fund need to have some assurances that the individuals who are making recommendations are not profiting from those recommendations. She noted that Mr. Cunningham is looking at ways to protect privacy, and if he can accomplish that, Members should look at his proposal.

Cochair Spitzer declared that all four systems have been well managed, all four systems have achieved higher rates of return than those achieved in the private sector, Board and IAC members are liable for any transgressions under the law, and the Senate confirms the individuals. He stated that the current system works very well and he said he is very reluctant to make changes that would harm the interests of the retirees and the State.

Mr Chastain asked whether the pop-up option under ASRS has expired or is about to expire. Ms. Stein explained that this option is currently available for retirees selecting the joint and survivor option The proposal is to extend it to retirees who elect period certain and life annuity benefit options

Ken Gerberry, Secretary/Treasurer, Maricopa County Deputies Association, distributed proposed amendments to the CORP system (Attachment 3 and 4). He explained that the proposals would correct inequities in the system: (1) if an officer is injured in the line of duty while accompanied by an inmate, the officer can collect disability retirement; if the officer is injured but not in the company

of a prisoner, the officer cannot collect disability retirement, and (2) benefits are based on base pay contributions; all other systems compute benefits on gross pay.

Mrs. Burns raised the question of collecting workers' compensation, regardles of whether the officer is accompanied by an inmate. Mr. Gerberry explained that an officer can collect workers' compensation at two-thirds of his salary; however, if not totally disabled, he cannot collect anything under disability retirement.

Don Isaacson, representing Fraternal Order of Police (FOP), testified that FOP has members that retire both into the PSPRS system and the CORP system. He stated that both systems have a self-funded COLA out of excess earnings. In PSPRS, the amount of the COLA is 50 percent. In CORP, the employee-employer percentage is 85-15 percent. He proposed that excess earnings be split on a 50-50 basis to conform CORP to PSPRS.

Bev Cuthbertson, President, Arizona Education Association (AEA), expressed hope that all the parameters of this issue will be considered. She said employees working for the government are at the mercy of elected officials. She said she expects them to keep their promises.

Cochair King assured Ms. Cuthbertson that they do have protection.

Jerry Doll, representing himself, Mesa, spoke about the 75-point window (Attachment 5). He said he would like this to become permanent instead of a window. He enumerated benefits: savings to the state, new openings for employment as people retire, and improved morale of employees.

TAPE 3, SIDE A

Cochair Spitzer remarked on the value of experience in the work force and said one cannot put a dollar amount on experience. He said his concern is that this proposal tends to discount that and ignores the benefits of experience.

Moyne Jamison, Chair, Legislative Committee, Phoenix Retired Teachers Association, testified that this is her fifth year in her efforts to try to get equalization. The two issues she discussed were (1) the standard of living which needs to be maintained, and (2) COLAs by percentage create inequities. She proposed paying dollar amounts averaged out instead of a percentage.

Chuck Torrie, State President, Fraternal Order of Police (FOP), asked for consideration in allowing county detention officers to join PSPRS.

Without objection, the meeting adjourned at 3:50 p.m.

Joanne Bell

Joanne Bell, Committee Secretary

(Attachments and tapes on file in the Office of the Chief Clerk.)

Attachment E

Retirement Proposals Handout

JOINT LEGISLATIVE STUDY COMMITTEE ON STATE RETIREMENT SYSTEMS

Retirement Proposals Submitted During Public Testimony

The Joint Legislative Study Committee on State Retirement Systems is charged with considering the following:

1) ***Retiree health insurance program and premium subsidy amounts***

Retirement System	Description of Proposal	Comments
ASRS	1) Establish a pre-paid retiree health insurance plan 2) Increase subsidy $30-$50	2) Presently $95/$65 for member coverage and $80/$50 for dependent coverage
PSPRS		
CORP		
EORP	1) Increase subsidy amounts to match ASRS and CORP	1) Presently $60 for members and $25 for dependents
All Systems/Other	1) Open another window to allow retirees who failed to take advantage of the 1994 window to re-enroll under DOA's coverage 2) Equalize subsidy amounts	

COMMITTEE RECOMMENDATION:

2) ***Minimum benefit amounts***

Retirement System	Description of Proposal	Comments
ASRS	1) Any minimum benefit should be based on years of service 2) Recalculate benefits to current purchasing power 3) If 2% multiplier is increased, recalculate all retirees' benefits	
PSPRS	1) $1,200 member/$950 surviving spouse	1) Presently $950 and $633
CORP		
EORP		
All Systems/Other		

COMMITTEE RECOMMENDATION:

3) ***Qualifications for normal and early retirement***

Retirement System	Description of Proposal	Comments
ASRS	1) Recalculate all retirees' benefits when requirements for normal/early retirement are changed 2) Retain existing criteria	
PSPRS		
CORP	1) 20-year retirement	1) Presently 25 years, 62 years old and ten years of credited service or rule of 80
EORP	1) "Rule of 80" points	1) Presently 65/5, 62/10 or 60/25
All Systems/Other		

COMMITTEE RECOMMENDATION:

4) ***Formulas used to calculate retirement benefits***

Retirement System	Description of Proposal	Comments
ASRS	1) Retain 2% formula	
PSPRS	1) Allow unused sick leave to accrue as credited service	
CORP	1) Increase multiplier to 2.5%	1) Presently 2 2%
EORP		
All Systems/Other	1) Equalize multipliers	1) Currently range from 2% to 4%

COMMITTEE RECOMMENDATION:

5) ***Post-retirement benefit increases***

Retirement System	Description of Proposal	Comments
ASRS	1) Use excess earnings above 8% 2) Place "surplus" attributable to all retirees' portion of assets in COLA account	1) Earnings in excess of 9% are presently available 2) Only excess earnings associated with retirees eligible for the COLA are presently available
PSPRS		
CORP		
EORP	1) Reinstate COLA provisions	1) Expired July 1, 1994
All Systems/Other		

COMMITTEE RECOMMENDATION:

6) ***Transfer provisions between state retirement systems***

Retirement System	Description of Proposal	Comments
ASRS		
PSPRS		
CORP	1) Allow ADC director to approve exceptions to membership in CORP 2) Provide retirement mechanism for ADC employees with CORP and ASRS credited service	1) As a result of normal career movement, ADC employees move in and out of CORP designated positions 2) Allow employees moving between retirement systems to retire without having to transfer credited service
EORP		
All Systems/Other		

COMMITTEE RECOMMENDATION:

7) ***The policy of providing "tax equity/hold harmless" benefit increases in response to the taxation of pension income***

Retirement System	Description of Proposal	Comments
ASRS	1) Continue policy of providing tax equity benefit increases for all personnel employed at the time the taxation of pension income law was changed	
PSPRS	1) Continue policy of providing tax equity benefit increases for persons affected by 1989 tax change or exempt state and federal pensions	
CORP		
EORP		
All Systems/Other	1) Exempt all military, federal civil service and Arizona state and local pensions from taxation 2) Apply "tax equity" benefit increases equally 3) Increase income tax pension deduction from $2,500 to $15,000	1) First $2,500 is presently not subject to taxation

COMMITTEE RECOMMENDATION:

8) ***Defined benefit versus defined contribution retirement plans***

Retirement System	Description of Proposal	Comments
ASRS	1) Retain defined benefit plan	
PSPRS		
CORP		
EORP		
All Systems/Other		

COMMITTEE RECOMMENDATION:

9) ***Early retirement incentives ("windows")***

Retirement System	Description of Proposal	Comments
ASRS	1) Open "75-points" window 2) Compensate retirees for "bonuses" created by window incentives 3) Disallow windows funded by the system	
PSPRS	1) Open window	
CORP	1) Open window	
EORP		
All Systems/Other	1) Require costs to be borne solely by affected employer groups	

COMMITTEE RECOMMENDATION:

10) ***Other issues proposed for consideration by the Committee***

Retirement System	Description of Proposal	Comments
ASRS	1) Require financial disclosure by Board/IAC members 2) Pay at least normal cost in ee/er contributions 3) Extend pop-up option to retirees who elect period certain and life annuity benefit options	2) Normal cost contribution rates are presently reduced, in accordance with statute, as a result of the overfunded status 3) Presently available for retirees selecting the joint and survivor option
PSPRS	1) Increase surviving spouses pension from 2/3 to 3/4 of member's pension 2) Allow disabled retirement eligible employees to take a disability pension	2) Disability pension is not taxable and COLA age requirement does not apply to disabled members
CORP	1) Allow prison chaplains and librarians to join CORP 2) Allow county detention officers to join PSPRS	1) Presently in ASRS 2) Presently in CORP
EORP	1) Separate judges	
All Systems/Other	1) Extend statute of limitations for federal retirees' income tax claim 2) Modify military buy-back conditions	2) For all programs, the present cost is the increase in actuarial present value

COMMITTEE RECOMMENDATION: