



PSPRS FY2023 Third Quarter Newsletter

TIER 2 PUBLIC SAFETY MEMBER CONTRIBUTIONS FALL IN JULY



Contribution rates for all public safety Tier 2 and Tier 1 “gap” members will fall to 7.65 percent starting July 1, 2023, with the signing of [HB2028, Laws 2023, Chapter 102](#).

The new law replaces the sliding scale that provided Tier 2 and Tier 1 “gap” public safety members with contribution rates ranging from 7.65 to 11.65 percent, depending on their employers’ pension funding levels.

Tier 2 members of the public safety plan were hired between Jan. 1, 2012, and June 30, 2017. Tier 1 ‘gap’ members who receive Tier 1 benefits and pay Tier 2 contribution rates were hired between July 20, 2011, and Dec. 31, 2011.

In a statement after the bill was signed in May, PSPRS Board of Trustees Chairman Scott McCarty praised policymakers and stakeholders who helped pass the legislation and noted that the law “creates lower, level, and equitable contribution rates for more than 4,000 Tier 2 members while protecting the benefits they earn working to make our communities safer.”

While the new law provides Tier 2 and Tier 1 “gap” public safety members permanent contribution rate savings, in many cases up to 4 percent of members’ salaries, it does not provide excess contribution refunds to members for prior service with employers that had funding levels insufficient to warrant lower member contribution rates.

The incoming law prompted the need for PSPRS and its actuaries, Foster & Foster, to issue revised employer valuations that are [available on the website](#). In all cases, employer contribution rates for the 2024 fiscal year stayed the same or decreased due to the law’s effect of applying accrued employer balances, known as “maintenance of effort,” towards employers’ contribution rates.

PSPRS LEGISLATION ROUND-UP

While the state Legislature has yet to adjourn, several bills sponsored by the PSPRS Board of Trustees made it past the finish line.

As shared above, House Bill 2028, which reduces Tier 2 public safety member contribution rates passed with an emergency clause and becomes effective July 1, 2023.

Two bills that impact Tier 3 public safety and corrections member benefit elections and make minor plan clarifications – SB1173 and HB2015 – were also signed by the governor.



All legislation that does not include an emergency clause becomes effective 90 days after the Legislature officially adjourns (sine die). With sine die expected to occur in August, SB1173 and HB2015 aren't likely to become effective until late 2023.

Stakeholders, especially employers and local boards, are encouraged to read each law and not rely on summaries.

SB1173 (Laws 2023, Chapter 6) Public retirement systems; plan election

- For Members:
 - o Clarifies that upon rehire Tier 3 public safety members, either active or inactive, participation in the PSPRS plan or the PSPDCRP (401a) plan for which the member had previously elected to participate, begins the date the employee is rehired or hired by another employer
 - o Allows Tier 3 corrections members who automatically receive defined contribution benefits (401a participation for corrections officers who are not employed in probation or surveillance capacities by the Administrative Office of the Courts) after bona fide separation to choose defined benefit or defined contribution benefits if they are hired or transfer into positions that offer a benefit election (AOC-CORP or public safety positions)
 - o Clarifies that Tier 3 members rehired by their prior employer after bona fide separation from their employer, or hired by another employer, if the member makes a new election, the member's participation in the previous plan continues until the date in which the member makes a different election, not to exceed 90 days
- For Employers:
 - o Conforms law with Government Accounting Standards Board requirements clarifying that assets held in employer Section 115 trusts are not included in employer pension plan assets for the purposes of determining unfunded pension liabilities and employer contribution amounts
 - o Conforms interest penalty to late contributions made by employers on behalf of Tier 3 members with those of other PSPRS-managed plans; compounding interest "annually" from "daily"

HB2015 (Laws 2023, Chapter 48) Retirement plans; plan election; rehire

- Clarifies that Tier 3 public safety and corrections members in positions that are eligible for a benefit election (pension or defined contribution) may make a new benefit election after a bona fide termination of employment of not less than six months with no prearranged reemployment agreement with their employer or are hired by a new employer
- Clarifies that members hired after bona fide separation from their employer or are hired by a new employer will receive benefits according to their previous benefit election in the event the member does not make a new election within 90 days
- NOTE: Members who had been in the defined contribution plan and return after a bona fide termination who elect to receive defined benefit (pension) benefits may be able to purchase previous service that had been earned in the defined contribution plan

HB2028 (Laws 2023, Chapter 102) PSPRS; contribution rates

- Reduces Tier 2 and Tier 1 "gap" member contribution rates to 7.65 percent from sliding scale of 7.65 to 11.65 percent based on employer pension plan funding status
- Applies Tier 2 member contributions in excess of 7.65 percent that were collected from June 30, 2011, through June 30, 2023, to calculations that determine employer contribution rates

- Does not provide for refund of prior Tier 2/Tier 1 “gap” member contributions made in excess of 7.65 percent for members who worked or work for employers with insufficient funding status to reduce member contribution rates below 11.65 percent
- Contains emergency clause making law effective July 1, 2023

EMPLOYER NOTICE: SEND FY24 PENSION FUNDING POLICIES



This is a notice for public safety and corrections employers to submit their funding policies to PSPRS to assist in complying with financial reporting laws.

The requirement is due to [SB1649 \(Laws 2021, Chapter 251\)](#). The law requires PSPRS to post employer funding policies to the agency website and implement plan “stress-testing” and reporting requirements. (Similarly, [HB2097 \(Laws 2018, Chapter 112\)](#), mandates that employers publish their pension funding policies to their own websites.)

PSPRS requests that employers email existing copies of their fiscal year 2024 pension funding policies to employerservices@psprs.com. Questions can be directed to PSPRS Employer Relations Manager Harold Greene at hgreene@psprs.com.

The League of Arizona Cities & Towns developed a pension funding policy template that is available on the [organization’s website](#).