



MEMORANDUM

Date: April 20, 2017

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CH Huckelberry", is written over the typed name and title.

Re: **Recent Court Decisions Impact Public Safety and Elected Official Retirement Plans**

The Arizona Legislature has made several recent attempts at reform of the Public Safety Personnel Retirement System (PSPRS) and the Elected Officials Retirement Plan (EORP). Senate Bill 1609 approved by the Legislature and effective in 2011 made changes to the contribution rates for active members. The legislation also capped Permanent Benefits Increases (PBI) for existing retirees.

Active and retired members filed lawsuits against the reforms, contending the provisions were unconstitutional: *Hall v. Elected Officials Retirement Plan* and *Parker v. Public Safety Personnel Retirement System* (Hall/Parker). In November 2016, the Arizona Supreme Court agreed with the Plaintiffs in the Hall case and mandated remedies for the impacted EORP members. The PSPRS Board of Trustees determined these remedies also apply to the Parker lawsuit and entered negotiations. Despite requests for reconsideration, the Court issued a recent mandate for the plans to begin implementing the remedies included in the decisions. Certain aspects of the remediation were returned to the trial court to finalize amongst the parties to implement refunds of excess contribution rates, underpayments of pension benefits, interest, etc.

The decision benefits EORP and PSPRS members hired on or before July 19, 2011. Participants hired after that date and their contribution rates, as set by the retirement plans, are not impacted by the decision. Certain retirees who retired after August 1, 2011 may also benefit once trial court negotiations are completed and signed off.

While the specifics of any refunds and interest payments are still being negotiated in the trial court, PSPRS and EORP have mandated that the employee contribution rates for all active employees hired on or before July 19, 2011 are to revert to the following:

- EORP (Hall) reduce from 13 percent to 7 percent.
- PSPRS (Parker) reduce from 11.65 percent to 7.65 percent (4 percent for eligible Pima County employees as the County currently pays 3.65 percent of the employee share).

The employer contribution rates for Fiscal Year (FY) 2016/17 and FY 2017/18 remain unchanged from those already provided by the two plans. Please see the attached schedule for a comparison of employer and employee rates after Hall/Parker is applied.

The plans directed that the new employee rates go into effect at the beginning of the first complete pay period on or after April 1, 2017. Pima County instituted the changes for the pay period ending April 15, 2017. Eligible PSPRS employees will see a 4 percent decrease in their pension contribution rate, and eligible EORP employees will see a 6 percent decrease in their pension contribution rate starting with their April 21, 2017 paycheck.

While the parties are still negotiating refunds of overpaid employee contributions, the two systems have discussed tentative plans for how the refunds will be paid once amounts are determined. As the plans cannot make refunds directly to active, non-retired employees hired on or before July 19, 2011, Pima County will be responsible for making those payments once they are determined. PSPRS and EORP will issue a credit memorandum, along with amounts payable, to individual members. Employers will deduct the total amount payable from immediate future contributions to the plans. Pima County must make this refund as soon as fiscally possible upon notification of the amounts payable.

The number of members eligible for the over-contribution refunds in PSPRS and EORP is not yet final, but the County estimates it has 411 active eligible members who may qualify for refunds. A rough estimate of total refunds is \$4.6 million plus interest. The County, upon notice from the systems, will issue refunds to active employees based on the Court decision. This is in addition to the additional \$4.7 million payment we will make for next fiscal year to the PSPRS.

A much smaller number of eligible retired participants may receive retroactive benefit adjustments once negotiations are completed. PSPRS and EORP will make these payments, if any, directly to the eligible retirees.

The future impacts of the Hall/Parker decisions on employer contributions are yet to be determined, as the final dollar impacts are still pending. PSPRS states on its website: *"It is not immediately clear when impacted members of EORP can expect to receive refunds of excess contributions or retroactive pension increases. In the event the same full refund and retroactive payment remedy is applied to the Parker lawsuit that impacts PSPRS-covered public safety employees, PSPRS estimates combined expenses of roughly \$200 million."*

PSPRS indicates they believe any losses to PSPRS resulting from the Parker lawsuit will be more than offset by pension reforms instituted in 2016. Reforms have not been implemented for EORP. While the final result is still unknown, it is likely Pima County will see some sort of future increases to its contribution rates to PSPRS and EORP once Hall/Parker is finalized and all payments are made to eligible participants.

CHH/anc
Attachment

c: Tom Burke, Deputy County Administrator for Administration
John Voorhees, Assistant County Administrator
Keith Dommer, Director, Finance and Risk Management
Allyn Bulzomi, Director, Human Resources
Robert Johnson, Budget Manager, Finance and Risk Management

**Arizona State Retirement System/ Public Safety Personnel Retirement System/Elected Official Retirement System
Comparison of Contribution Rates after Hall and Parker Court Decisions
FY 2016/17 versus FY 2017/18**

	FY 2016/17		FY 2017/18		FY 2016/17		FY 2017/18	
	Employer	Employee	Employer	Increase/ Decrease	Employer	Employee	Employee	Increase/ Decrease
Arizona State Retirement	11.48%	11.50%	11.50%	0.02%	11.48%	11.50%	11.50%	0.02%
Public Safety - Sheriff - Hired Prior to 7/20/2011	56.45%	67.16%	67.16%	10.71%	4.00%	4.00%	4.00%	0.00%
Public Safety - Sheriff - Hired Prior to 1/1/2015	56.45%	67.16%	67.16%	10.71%	8.00%	8.00%	8.00%	0.00%
Public Safety - Sheriff - Hired On or After 1/1/2015	52.80%	63.51%	63.51%	10.71%	11.65%	11.65%	11.65%	0.00%
Public Safety - Sheriff - Hired On or After 7/1/2017	n/a	53.49%	53.49%	n/a	n/a	n/a	7.31%	n/a
Corrections Officers	22.70%	25.13%	25.13%	2.43%	8.41%	8.41%	8.41%	0.00%
Admin Office of Courts - Probation Officers	20.88%	23.34%	23.34%	2.46%	8.41%	8.41%	8.41%	0.00%
County Attorney Investigators - Hired Prior to 7/20/2011	71.76%	89.94%	89.94%	18.18%	4.00%	4.00%	4.00%	0.00%
County Attorney Investigators - Hired Prior to 1/1/2015	71.76%	89.94%	89.94%	18.18%	8.00%	8.00%	8.00%	0.00%
County Attorney Investigators - Hired On or After 1/1/2015	68.11%	86.29%	86.29%	18.18%	11.65%	11.65%	11.65%	0.00%
County Attorney Investigators - Hired On or After 1/1/2017	n/a	77.79%	77.79%	n/a	n/a	n/a	7.31%	n/a
Elected Officials - Hired Prior to July 20, 2011	23.50%	23.50%	23.50%	0.00%	7.00%	7.00%	7.00%	0.00%
Elected Officials - Hired On or After July 20, 2011	23.50%	23.50%	23.50%	0.00%	13.00%	13.00%	13.00%	0.00%

1 - Change in employee rate from 11.65 percent to 7.65 percent effective first whole pay period after April 1, 2017 adjusted for 3.65 percent excess County contribution. Change required as the result of Parker vs. PSPRS decision. FY 2016/17 and FY 2017/18 employee rates were 8.00 percent prior to decision.

2 - Change in employee rate from 11.65 percent to 7.65 percent effective first whole pay period after April 1, 2017 adjusted for 3.65 percent excess County contribution. Change required as the result of Parker vs. PSPRS decision. FY 2016/17 and FY 2017/18 employee rates were 8.00 percent prior to decision.

3 - Change in employee rate from 13.00 percent to 7.00 percent effective first whole pay period after April 1, 2017. Change required as the result of Hall vs EORP decision. FY 2016/17 and FY 2017/18 employee rates were 13.00 percent prior to decision.

At this point, there is no change in employer rates for impacted employees.

Decisions have no impact on Corrections Officer Retirement Plan employee rates.