



Arizona State Retirement System

EXTERNAL AFFAIRS COMMITTEE

October 6, 2014



Arizona State Retirement
SYSTEM

A COMPONENT UNIT OF THE STATE OF ARIZONA ■ DELIVERING SERVICE WITH PRIDE

HOW...

ASRS Employees Deliver Service With PRIDE!

PROFESSIONALISM

We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization.

- Displays a friendly, respectful and courteous demeanor even when confronted by adversity
- Has proactive and responsive approach to internal and external customer needs
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability • Has subject matter expertise
- Has critical thinking skills • Has an honest, fair, non-judgmental mind-set
- Is adaptable to beneficial change • Adheres to the ASRS Code of Conduct

RESULTS

We treasure the achievements of individuals, teams, divisions and the agency that energize the organization.

- Meets goals and objectives
- Completes projects
- Produces quality work products
- Satisfies customers
- Attains individual accomplishments
- Manages risks successfully

IMPROVEMENT

We appreciate individuals, teams or divisions who drive the agency forward with new, innovative ideas and solutions.

- Promotes new ideas
- Enhances outcomes and performance
- Solves problems
- Enhances morale
- Improves relationships
- Increases efficiency, effectiveness or reduces costs

DIVERSITY

We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributors.

- Encourages an attitude of openness and a free flow of ideas and opinions
- Treats others with dignity and respect
- Works effectively to accomplish goals with teams comprised of dissimilar individuals
- Recognizes and promotes skills in others attained on and off the job

EXCELLENCE

We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization.

- Surpasses member, stakeholder and associate expectations
- Demonstrates a willingness to go the extra mile to engender a positive public image
- Embraces change in a manner that inspires others
- Accepts responsibility and challenges with enthusiasm
- Takes a personal interest in promoting teamwork through effective use of communication (verbal, non-verbal, written and technological techniques)
- Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments of others



**ARIZONA STATE
RETIREMENT SYSTEM**



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*Paul Matson
Director*

AGENDA NOTICE OF PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM EXTERNAL AFFAIRS COMMITTEE

3300 North Central Avenue, 14th Floor Conference Room
Phoenix, AZ 85012

October 6, 2014
10:30 A.M. Arizona Time

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) External Affairs Committee (EAC) and to the general public that the ASRS External Affairs Committee will meet on October 6, 2014, beginning at 10:30 A.M. in the 14th Floor Conference Room of the ASRS office, 3300 North Central Avenue, Phoenix, AZ, 85012. Trustees of the Board Committee may attend either in person or by telephone conference call.

This is a regularly scheduled meeting of the EAC; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the ASRS Board or one of its committees. Actions taken will be consistent with EAC governance procedures, and no business of the Board will be transacted. Actions requiring Board authority will be presented to the full Board for final decision.

The Chair may take public comment during any agenda item. If a member of the public wishes to speak to a particular agenda item, he or she should complete a Request to Speak form indicating the item and provide it to the Committee administrator.

This meeting will be teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710. The conference call to Tucson will be disconnected after 15 minutes if there are no attendees in the Tucson audience.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks Mr. Brian McNeil
Chair, External Affairs Committee
2. Approval of the Public Meeting Minutes of the April 11, 2014 EAC Meeting Mr. Brian McNeil
3. Presentation Regarding Introduction of A New External Affairs Staff Member.
.....Mr. Patrick M. Klein
Assistant Director, External Affairs Division

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(3), notice is hereby given to Trustees of the External Affairs Committee and the general public that the Committee may vote to go into executive session, which will not be open to the public, for the purpose of discussion or consultation for legal advice with the attorney of the public body.

4. Presentation, Discussion and Appropriate Action Regarding Legislative Initiatives and Legislative Update..... Mr. Patrick M. Klein
..... Mr. Nicholas Ponder
Government Relations Officer

5. Call to the Public Mr. Brian McNeil

Those wishing to address the ASRS Committee are required to complete a Request to Speak form before the meeting indicating their desire to speak. Request to Speak forms are available at the sign-in desk and should be given to the Committee Administrator. Trustees of the Committee are prohibited by A.R.S. § 38-431.01(G) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Committee Chair may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

6. Adjournment of the ASRS External Affairs Committee

A copy of the agenda background material provided to Committee Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona, and 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting.

Persons(s) with disabilities may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated September 30, 2014

ARIZONA STATE RETIREMENT SYSTEM

Courtney Micheau Date
Committee Administrator

Patrick M. Klein Date
Assistant Director, External Affairs Division



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Paul Matson
Director

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM EXTERNAL AFFAIRS COMMITTEE

HELD ON
April 11, 2014
10:30 a.m., Arizona Time

The External Affairs Committee (EAC) of the Arizona State Retirement System (ASRS) met in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, AZ, 85012. Mr. Kevin McCarthy, Chair, called the meeting to order at 10:30 a.m., Arizona Time.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona, 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Kevin McCarthy, Chair - Via Teleconference
Mr. Brian McNeil, Vice-chair - Via Teleconference
Mr. Tom Manos – Via Teleconference
Dr. Richard Jacob – Via Teleconference

Absent: None

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the February 14, 2014 EAC Meeting

Motion: Mr. Tom Manos moved to approve the regular and executive session minutes of the March 18, 2014 EAC Meeting. Mr. Brian McNeil seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions and 0 excused, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding Legislative initiatives and Legislative Update.

Mr. Patrick Klein, Assistant Director, External Affairs Division, introduced Mr. Nicholas Ponder, ASRS Legislative Liaison, who presented the Committee with an update on the following ASRS 2014 Legislation:

- HB 2050 - (ASRS membership, section 218 requirements): This bill would eliminate the requirement that members must be covered by an employer's Social Security Section 218 Agreement. While the vast majority of ASRS members also participate in and contribute to the federal Social Security program, there are some individuals who are contributing to the ASRS but who are not covered by the employer's 218 Agreement and, as a result, are potentially mis-enrolled. This bill would not allow those already contributing to Social Security to opt out. This bill went through Committee and was approved with the amendment, which articulates how those who were not enrolled in the plan, or enrolled in the plan and then

removed from it, could purchase previous service. This bill was approved by the Senate with an amendment making a technical change. Due to the amendment, it will return back to the House for a vote.

- SB 1082 – (Employee Background Checks): This bill allows the ASRS to perform background checks and credit checks on current and prospective employees once the agency establishes a policy on how credit checks would be performed and how the information is relayed to the employee. This bill was approved by the House Committee of the Whole on April 9, 2014 and is waiting a Third Read vote in the House.
- SB 1083 – (Tech Correction; Applicable Interest Rate): This bill makes technical IRS conforming changes for specified actuarial adjustments for ASRS benefits, regarding the stability period during which the “applicable interest rate” (defined) remains constant in the plan year, and the look-back month that is used to determine the application interest rate in the third full calendar month preceding the first day of the stability period. This has been passed by the Senate and is expected to be Third Read and voted on by the House soon.
- SB 1084 – (Long Term Disability Compensation): This bill clarifies how the ASRS calculates compensation for Long Term Disability (LTD) benefits. Statutes say the calculation used to determine a person’s salary for LTD purposes is both “at the time of disability” and “an average of the previous 12 months’ salary.” The ASRS is proposing to change the language to conform to the current process which is more in line with what one’s salary is at the time of their disability. This bill was approved by the House Committee of the Whole on March 31, 2014 and is waiting a Third Read vote in the House.
- HB 2039 – (Charter Schools; Higher Education Sponsors): This bill allows charter schools who obtain their charter through a university to become members of the ASRS. This was approved by the Senate with an amendment and must return to the House for a vote. Mr. Klein noted that ASU brought in one charter school on July 1, 2011, and the current bill would be retroactive to cover that inclusion.
- SB 2058 – (Public Pension; Limit on Compensation): This bill implements a cap of \$150,000 on earnings eligible for contributions affecting employees hired on or after the effective date. This would have a fiscal impact on the ASRS at present value of 80 million less in contributions over a 30-year period due to the \$150,000 cap not adjusting for inflation. The ASRS takes a neutral position because this is a benefit change. There has been little movement on this bill due to the focus on the state budget. The ASRS has expressed to Senators concern about the \$150,000 limit, and there is a possibility of two floor amendments to the bill. The first would require a review of the law every 3-5 years to adjust the limit as necessary. The second amendment would allow money for implementation of the project at the ASRS. If the amendments are passed, the bill would then return back to the House for another vote.

4. Call to the Public

Mr. Joe Carter, representing the All Arizona Schools Retirees Association, addressed the Committee regarding the presentation at the March 18, 2014 EAC meeting on salary spiking. Mr. Carter said he would encourage the Committee not to create a “glass ceiling” for those individuals who start at a lower-wage job but then move up with commensurate salary increases.



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Paul Matson
Director

ARIZONA STATE RETIREMENT SYSTEM

MEMORANDUM

TO: The Arizona State Retirement System (ASRS) External Affairs Committee (EAC)

FROM: Mr. Patrick M. Klein, Assistant Director, External Affairs Division

DATE: September 29, 2014

RE: **Agenda Item #3:** Presentation Regarding Introduction of A New External Affairs Staff Member

Purpose

To introduce the new ASRS Rules Writer.

Recommendation

Informational only; no action required.

Background

Jessica Ross moved to Phoenix, Arizona with her mother in 1998 and considers the Valley to be home. She graduated cum laude with a Bachelor of Arts in English Literature from Arizona State University in 2009, and received a Juris Doctor from Arizona Summit Law School in 2013. Prior to law school Ms. Ross served as the Legal Clerk for Hunter, Humphrey, & Yavitz, a local estate planning firm, for over five years and she comes to the ASRS as the former Legal Assistant for the Governor's Regulatory Review Council (GRRC). Ms. Ross successfully sat for the Arizona Uniform Bar Exam in February 2014, and plans to be licensed as an attorney in Arizona by early 2015. As the new Rules Writer at the ASRS, Ms. Ross looks forward to utilizing her legal skills to address the agencies rulemaking needs.



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*Paul Matson
Director*

MEMORANDUM

TO: The Arizona State Retirement System (ASRS) External Affairs Committee (EAC)

FROM: Mr. Paul Matson, Director
Mr. Patrick M. Klein, Assistant Director, External Affairs Division
Mr. Nick Ponder, Government Relations Officer

DATE: September 30, 2014

RE: **Agenda Item #4:** Presentation, Discussion and Appropriate Action with Respect to Legislative Initiatives and Legislative Update

Purpose

To discuss potential ASRS 2015 legislative initiatives for the 2015 session, beginning January 12, 2015.

Recommendation

Recommend moving appropriate 2015 legislative initiatives to the ASRS Board for approval.

Background

During the summer, the External Affairs Division (EAD) received legislative suggestions from ASRS staff and Trustees concerning plan design issues; plan inefficiencies, inconsistencies, and inequities; administrative concerns; and others. The EAD researched and discussed each suggestion in conjunction with Trustees, Executive Management, and other internal staff. Staff is seeking a recommendation to move the items to the full ASRS Board for approval.

2015 LEGISLATIVE SUGGESTIONS

STATUTE: 38-783(G)

PROPOSED BY: Chuck Whetstine, External Tax Counsel

PROPOSAL: Federal conforming language required by the IRS regarding our 401(h) account and the health benefit supplement.

38-783. Retired members; dependents; health insurance; premium payment; separate account; definitions

G. Payment of the benefits provided by this section is subject to the following conditions:

1. The payment of the benefits is subordinate to the payment of retirement benefits payable by ASRS.
2. The total of contributions for the benefits and actual contributions for life insurance protection, if any, shall not exceed twenty-five per cent of the total actual employer and employee contributions to ASRS, less contributions to fund past service credits, after the day the account is established.
3. The board shall deposit the benefits provided by this section in the account.
4. The contributions by the employer to the account shall be reasonable and ascertainable.

5. IF A MEMBER WHO IS ELIGIBLE FOR BENEFITS PROVIDED BY THIS SECTION FORFEITS HIS INTEREST IN THE ACCOUNT PRIOR TO THE TERMINATION OF ASRS, AN AMOUNT EQUAL TO THE AMOUNT OF THE FORFEITURE WILL BE APPLIED AS SOON AS POSSIBLE TO REDUCE EMPLOYER CONTRIBUTIONS TO FUND THE BENEFITS PROVIDED BY THIS SECTION.

This bill would be applied retroactively from and after July 1, 2013. Generally, the IRS requests that an amendment be effective as of the first day of the plan year in which the application for a Favorable Determination Letter (FDL) was filed unless there are compelling reasons to choose a different date. In this particular case, the application for a FDL was filed in January 2014 making the first day of the plan year July 1, 2013.

2015 LEGISLATIVE SUGGESTIONS

STATUTE: 38-797.07

PROPOSED BY: Barry O'Dowd, Sedgwick's on-site LTD representative

PROPOSAL: Remove the word "total" from our long term disability statutes when written prior to the term disability. The statutory definition only refers to the inability of a member to do his or her own occupation initially, then any occupation subsequently.

38-797.07. LTD program benefits; limitations; definitions

A. The LTD program is subject to the following limitations:

1. Except as provided in paragraph 9 of this subsection, monthly LTD program benefits shall not exceed two-thirds of a member's monthly compensation, reduced by:

(f) All of any payments for a veteran's disability if both of the following apply:

(i) The veteran's disability payment is for the same condition or a condition related to the condition currently causing the member's **total** disability.

3. Monthly LTD program benefits are not payable until a member has had a **total** disability for a period of six consecutive months.

7. Monthly LTD program benefits cease to be payable to a member at the earliest of the following:

(a) The date the member ceases to have a **total** disability.

11. A member shall be considered to have a **total** disability if based on objective medical evidence:

(a) During the first thirty months of a period of disability, the member is unable to perform all duties of the position held by the member when the member developed a **total** disability.

2015 LEGISLATIVE SUGGESTIONS

STATUTE: 15-1451

PROPOSED BY: Erica Dunphy, Financial Services Division, & Mark Muraoka, External Affairs Division

PROPOSAL: Currently the statute suggests that if an ASRS member becomes an employee of a community college district and elects to join the district's Optional Retirement Plan (ORP), the ASRS must transfer all contributions from the ASRS account to the ORP.

Generally, this is not an issue and happens with some degree of frequency. However, in the singular circumstance where the ASRS member is retired, the ASRS does not have a way to determine the present value of that member's benefit and then transfer that amount over to the ORP. As a result, we have taken the position that we cannot transfer the balance of a retired member's account.

We would like to add language to the statute that restricts the ASRS to only transfer the account balance for active, inactive and disable members (excluding retired members). If a member is on LTD and joins the ORP of a community college district, under the proposed language, the member will be dropped from our LTD program.

15-1451. Optional retirement plans

D. If an employee who is a **NON-RETIRED** member of the Arizona state retirement system elects to participate in an optional retirement program pursuant to subsection C of this section, the Arizona state retirement system shall transfer the employee's contributions to the Arizona state retirement system and interest as determined by the board of the Arizona state retirement system to the optional retirement program within the later of ninety days after the election or ninety days after receipt by the optional retirement program of a favorable letter of determination issued by the United States internal revenue service. If an eligible employee fails to make an election as provided in subsection C of this section, the employee is deemed to have elected to participate in the Arizona state retirement system. The election to participate in an optional retirement program is irrevocable and constitutes a waiver of all benefits provided by the Arizona state retirement system. All eligible employees who elect to participate in an optional retirement program shall remain participants in the optional retirement program during the continuance of employment with the community college district.

2015 LEGISLATIVE SUGGESTIONS

STATUTE: 38-737(A)

PROPOSED BY: Paul Matson

PROPOSAL: The ASRS is requesting the ability, but not requirement, to change its actuarial valuation method. Reasons to execute this change would include: to obtain consistency with GASB 67; to obtain great consistency with other states; the ability to maintain the aforementioned consistencies if appropriate.

38-737. Employer contributions

A. Employer contributions shall be a percentage of compensation of all employees of the employers, excluding the compensation of those employees who are members of the defined contribution program administered by ASRS, as determined by the ASRS actuary pursuant to this section for June 30 of the fiscal year immediately preceding the preceding fiscal year, except that beginning with fiscal year 2001-2002 the contribution rate shall not be less than two per cent of compensation of all employees of the employers. ~~Beginning July 1, 2011, the total employer contribution shall be determined on the projected unit credit method.~~ **ON OR AFTER JUNE 30, 2016, THE ACTUARIAL VALUATION METHOD TO BE USED IN THE ANNUAL ACTUARIAL VALUATIONS OF THE PLAN WILL BE ONE OF THE GENERALLY ACCEPTED ACTUARIAL METHODS AS DETERMINED BY THE BOARD.** The total employer contributions shall be equal to the employer normal cost plus the amount required to amortize the past service funding requirement over a period that is determined by the board and consistent with generally accepted actuarial standards. In determining the past service funding period, the board shall seek to improve the funded status whenever the ASRS trust fund is less than one hundred per cent funded.

2015 LEGISLATIVE SUGGESTIONS

STATUTE: 38-703 & 38-755

PROPOSED BY: Jothi Beljan, Assistant Attorney General

PROPOSAL: Remove the terms “provided in rules” and “subject to rules prescribed by the board” in both of these statutes.

38-703. Plans for coverage of employees of eligible political subdivisions; payroll audits

A. Each eligible political subdivision of this state may submit for approval by the state agency a plan for extending the benefits of title II of the social security act, in conformity with applicable provisions of the social security act, to employees of the eligible political subdivisions. The state agency shall approve each plan and any amendment of the plan if it finds that the plan or amendment of the plan is in conformity with requirements ~~provided in rules~~ of the state agency, except that a plan shall not be approved unless:

Rationale: The ASRS has no jurisdiction in this area but the Social Security Administration does. As a result, any rules that are made by the ASRS do not need to be agreed upon by the SSA. In this area the SSA provides guidance to the ASRS.

38-755. Information as to member's status; beneficiary designation; spousal consent; confidentiality

~~A. Subject to rules prescribed by the board, On application of a member, the board shall furnish information concerning the member's status. In addition, the board shall furnish to each member an account, that may be electronic or online, showing the status of the member's account, including the name of the member's beneficiary as last listed with the board.~~

A. THE ASRS SHALL MAKE INFORMATION CONCERNING THE MEMBER'S ACCOUNT ACCESSIBLE TO THE MEMBER IN WRITTEN OR ELECTRONIC FORM. THIS INFORMATION SHALL INCLUDE, BUT NOT BE LIMITED TO, THE MEMBER'S CURRENT ACCOUNT BALANCE, CONTACT INFORMATION, BENEFICIARY ELECTION, ESTIMATED RETIREMENT DATE, AND ESTIMATED BENEFIT AMOUNT.

Rationale: The agency has been transitioning everything towards online use and as we are all aware technology systems are always modernizing and changing. The time-consuming rules process does not tend to coexist with the technology process and thus hampering an agency with the requirement of a rule does not seem necessary.

2015 LEGISLATIVE SUGGESTIONS

STATUTE: 38-797.10

PROPOSED BY: Jothi Beljan, Assistant Attorney General

PROPOSAL: Exempt the ASRS from “bad faith” claims as they relate to our LTD program. ERISA plans are protected from bad faith claims and because we use ERISA as guidance for our plan in many circumstances we would like a similar protection.

(Below is the current language in our statute. We are working with Jothi and outside counsel to determine how our statute would need to be modified.)

38-797.10. Assurances and liabilities

D. Neither the employers, the board nor any member of the board guarantees the LTD trust fund established by section 38-797.02 in any manner against loss or depreciation, and they are not liable for any act or failure to act that is made in good faith pursuant to this article. The employers are not responsible for any act or failure to act of the board or any member of the board. Neither the board nor any member of the board is responsible for any act or failure to act of any employer.

2015 LEGISLATIVE SUGGESTIONS

STATUTE: 38-738

PROPOSED BY: Tracy Rundle, Financial Services Division

PROPOSAL: Currently, employers are allowed to take a credit on contributions made to the ASRS that were in excess of the required contribution amount if requested within 1 year of the date of contribution. (The ASRS has permitted contribution credits beyond one year.)

On occasion, employers take a credit on employee accounts that may have already been refunded to the member which means the ASRS is taking a loss on those accounts.

38-738. Adjustment and refund

A. If more than the correct amount of employer or member contributions is paid into ASRS by an employer through a mistake of fact, ASRS shall return those contributions to the employer if the employer requests return of the contributions within one year after the date of overpayment **AS LONG AS CORRESPONDING FUNDS HAVE NOT BEEN DISTRIBUTED TO THE MEMBER OR BENEFICIARY**. ASRS shall not pay an employer earnings attributable to excess contributions but shall reduce the amount returned to an employer pursuant to this section by the amount of losses attributable to the excess contributions.

NOTE: The loss only occurs if the member was entitled to a large percent of the employer contributions.

ISSUE: Currently, there is no process whereby an employer can find out if an employee has refunded their account. However, Brian Crockett, ASRS Strategic Planning and Analysis Team, has indicated that this process is something that can be included in the Oracle Modernization Project and, as a result, would require a July 1, 2016 effective date.

GROUP: The group agreed to move forward with this item but with a delayed effective date, hence July 1, 2016. As noted, there was some debate about when an employer should/shouldn't be entitled to a credit.