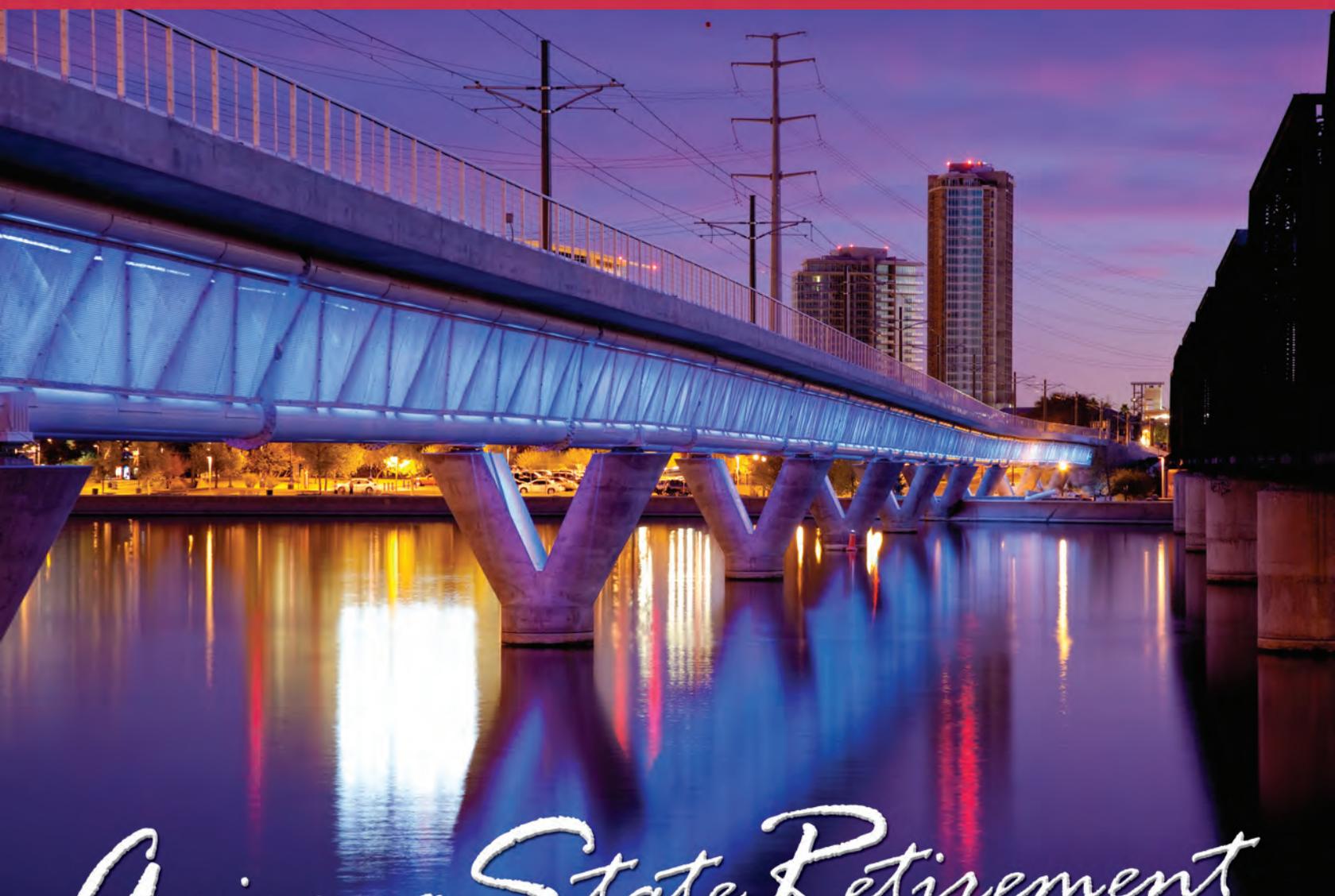


# Employer Manual 2012



*Arizona State Retirement*  
**SYSTEM**

**...DELIVERING SERVICE WITH PRIDE**

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# Chapter 1: INTRODUCTION

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The Arizona State Retirement System (ASRS) provides retirement, long term disability, retiree health insurance, and other benefits to employees of the state, counties, and participating municipalities, universities and community colleges, school districts, and other political entities.

## Purpose of the Manual

To properly administer the ASRS benefit programs, the ASRS relies on and works closely with participating employers to enroll eligible employees for membership, report and submit retirement and long term disability contributions on qualifying compensation, maintain records, complete required forms, and provide other information necessary for the efficient operation of the retirement plan.

We have developed the ASRS Employer Manual to provide employers with information to accurately and efficiently process information and to assist you in fulfilling your responsibilities to your employees and the ASRS. The importance of proper reporting procedures cannot be overemphasized. The proper administration of your employees' retirement accounts depends heavily on how quickly and accurately you report information to the ASRS.

Although it provides general information about ASRS membership benefits, it is not the purpose of the manual to make you an expert on ASRS benefits. We hope employer payroll, human resource, benefits, and administrative staff will use the manual as a "working tool" and reference to answer most of the questions that occur from day to day regarding employer responsibilities and reporting processes.

Keep in mind that the ASRS is governed by extensive, and, at times, complex rules, regulations, and state and federal laws, which take precedence over any instructions in this manual. Throughout the manual, relevant statutory references are provided. **If there is a conflict of information, Arizona Revised Statutes and the Arizona Administrative Code, along with any federal laws, the regulations of the Social Security Administration, and the Internal Revenue Service codes, shall have final authority.**

The manual is revised at least every two years and, as necessary, the ASRS will provide updates to reflect changes in statutory provisions or ASRS policy (these updates will include revision dates at the bottom of each page). The manual will be maintained in a current status on the ASRS website at [www.azasrs.gov](http://www.azasrs.gov) under the Employers tab and Employer Manual link.

## Summary of Responsibilities

Statutes and rules define the roles and responsibilities the ASRS, participating employers, and eligible members each have in providing timely and accurate information that will eventually determine retirement and other benefits.

Detailed instructions regarding specific responsibilities outlined below are provided in the appropriate sections of this manual.

### ASRS

The ASRS has a responsibility to serve our members and employers and to:

- ❑ Manage the ASRS Plan and other established benefit programs
- ❑ Enter into agreements with public employers for participation in the ASRS after ensuring all eligibility requirements are met, including an agreement for Social Security coverage under Section 218 of the Social Security Act that has been approved by the Social Security Administration
- ❑ Safeguard the assets of the retirement trust fund
- ❑ Establish and enforce reporting requirements and forms
- ❑ Receive and process contributions
- ❑ Advise and inform members of retirement eligibility and benefits
- ❑ Process and pay retirement benefits and refunds
- ❑ Resolve membership, contribution, and credited service issues
- ❑ Provide publications and communications regarding ASRS eligibility, requirements, benefits, and any changes thereto

### Employer

An employer has a responsibility to ensure the ASRS is able to accurately determine an employee's membership status and benefit eligibility and to:

- ❑ Understand the eligibility requirements for employer participation, including the provisions of the Section 218 agreement
- ❑ Understand position and membership eligibility requirements, as determined by the employer's Section 218 agreement and ASRS statutes, and enroll all eligible employees in the ASRS
- ❑ Deduct retirement and long term disability contributions from eligible compensation
- ❑ Remit the total member and employer contributions in a report form prescribed by the ASRS
- ❑ Certify and submit all forms in a timely manner on behalf of the member at the request of the ASRS or a member
- ❑ Provide certification of eligibility and correct errors in prior reporting detected by the employer, a member, or the ASRS
- ❑ Advise and direct employees, as appropriate, regarding their ASRS status and benefit entitlement

- ❑ Distribute ASRS information and materials to members and all affected levels/departments of its organization
- ❑ Obtain clarifications of laws, regulations, and other information from the ASRS as needed for proper implementation and understanding of rules and procedures

## **Member**

The member has a responsibility to learn about the ASRS benefits and options that are available and to:

- ❑ Complete the online ASRS enrollment process and designate a beneficiary
- ❑ Review member account information and advise the ASRS of any errors
- ❑ Keep account information current by advising the ASRS of changes in name, address, Social Security number, beneficiary or other pertinent information
- ❑ Utilize the tools and publications provided on the ASRS website to understand benefits and to plan for retirement
- ❑ Attend educational meetings and request an estimate of a retirement benefit within one year prior to retirement
- ❑ Submit retirement application and other required forms prior to the desired retirement effective date

## **Notes**

# Chapter 2: OVERVIEW OF ASRS

---

The Arizona State Legislature established the Arizona State Retirement System (ASRS) on July 1, 1953, to provide retirement and other benefits for employees of the state, the state universities, and political subdivisions in Arizona. Public school teachers, previously covered under a Teachers Retirement System, voted to join the ASRS effective January 1, 1955.

## History

The original ASRS retirement plan was a defined contribution plan and is referred to as the “System.” Under the System, members and employers contribute a percentage of compensation for retirement and receive a benefit based on the total amount of contributions, interest earned, and any supplemental credits granted and on account at the time of retirement.

In 1970, the Arizona State Legislature authorized the creation of the present defined benefit plan to replace the System for state employees if 70 percent or more of eligible state employees and teachers voted to transfer to the new plan. More than 80 percent of the members voted for the new defined benefit plan, which became effective July 1, 1971. The defined benefit retirement plan is referred to as the “Plan.” Under the Plan, members and employers contribute a percentage of compensation for retirement and receive a benefit based on a percentage of average compensation and years of credited service at the time of retirement.

Political subdivision employers conducted similar elections over the following few years and voted to join the Plan. The legislature called another election in 1975, and additional System members of the state and its political subdivisions voted to transfer to the Plan. As of July 1, 1976, the System was closed to new membership, and all new eligible members participated in the Plan.

Effective July 1, 1981, all remaining non-retired members of the System who had not voted to transfer to the Plan became members of the Plan as prescribed by Laws of 1980, Chapter 238. This statutory provision transferring the remaining System members to the Plan preserved the right of these members to a retirement benefit determined according to the System provisions. Subsequent legislation and the settlement of a class action lawsuit also restored certain rights to the original System members.

Participation in the ASRS Plan is a condition of employment for eligible employees of participating employers. As of June 30, 2011, ASRS covers over 538,000 active, inactive (those who are no longer working in an ASRS-covered position but who retain a benefit), retired, and disabled members who are or were employees of public employers that include:

- ❑ 114 state agencies
- ❑ 3 state universities
- ❑ 10 community colleges
- ❑ 413 public school districts and charter schools
- ❑ 15 counties
- ❑ 78 cities and towns
- ❑ 94 miscellaneous public sub-division entities

## **Purpose of the ASRS**

The purpose of the ASRS, as provided in A.R.S. § 38-712, is to:

- ❑ Provide an incentive to employers in the recruitment and retention of employees of the highest possible quality
- ❑ Contribute toward providing a total compensation package that is generally equivalent to comparable employment in other public and private organizations in this state
- ❑ Provide a retirement system that encourages employees to remain in service for periods of time that will provide public employers with the full benefit of the training and experience gained by the employees
- ❑ Provide an orderly method of promoting and maintaining a high level of service to the public through an equitable separation procedure that is available to employees at retirement or on becoming disabled
- ❑ Provide a base retirement benefit that is less than one hundred percent of a member's post-retirement income requirements, recognizing that personal savings and Social Security also contribute toward total post-retirement income requirements

## **Plan Description and Benefits**

In broad terms, there are generally two types of retirement plans – a defined benefit plan and a defined contribution plan. For more information about the general characteristics of each type of plan, see Appendix A: Defined Benefit versus Defined Contribution Retirement Plans.

The ASRS Plan is a cost-sharing, multi-employer, and public employee defined benefit plan. Cost-sharing means that both the member and employer contribute a percentage of compensation to the member's retirement account.

The ASRS plan is tax qualified under section 401(a) of the Internal Revenue Code. It is an employer pick-up plan under section 414(h)(2) of the Code. As such, member contributions are tax deferred until the member receives a benefit or refund payment.

All members who participate in the ASRS defined benefit plan are required to make contributions for both the retirement and long term disability income plans.

Employers must also make contributions. There are no options for members or employers to reduce, adjust or opt out of making contributions.

For more information about membership eligibility, see Chapter 4: Membership. For more information about submitting contributions, see Chapter 6: Contribution Reporting.

## Benefits

ASRS members are immediately vested in their own retirement contributions. Depending on their membership date, after five years, they may also be vested in a portion of their employer contributions for any refund payments prior to retirement. (See Chapter 8: Leaving Employment – Refund of Contributions)

As a defined benefit plan, the ASRS provides a lifetime retirement benefit, or pension, for eligible members based on average monthly compensation and service credit according to the following calculation:

$$\begin{array}{l} \text{AVERAGE} \\ \text{MONTHLY} \\ \text{COMPENSATION} \end{array} \quad \times \quad \begin{array}{l} \text{YEARS OF CREDITED} \\ \text{SERVICE} \end{array} \quad \times \quad \begin{array}{l} \text{GRADED} \\ \text{MULTIPLIER} \end{array}$$

**Average Monthly Compensation** is determined by one of three calculation methods and is based on the member’s initial membership date. (See Chapter 8: Leaving Employment – Retirement Benefit Calculation)

**Years of Credited Service** is determined by the period of time during which a member made contributions to the ASRS, plus any service purchased and credited to the account. (See Chapter 7: Purchase of Service Credit – ASRS Service Credit)

**Graded Multiplier** is a percentage, based on years of credited service at the time of retirement, as set by statute.

Total Years of Credited Service (at retirement)	Graded Multiplier Factor (as a Percent)	Graded Multiplier Factor (as a Decimal)
0.00 to 19.99 years	2.10%	0.0210
20.0 to 24.99 years	2.15%	0.0215
25.0 to 29.99 years	2.20%	0.0220
30.0 or more years	2.30%	0.0230

ASRS members may also be eligible to receive long term disability income benefits, participate in retiree group health insurance and premium benefit programs, and provide their beneficiary with a benefit, according to the ASRS administrative rules and statutes governing eligibility. (See Chapter 9: Additional Benefit Programs)

## ASRS Administration

### ASRS Board of Trustees

The ASRS Board of Trustees is the governing body of the ASRS and is responsible for the administration and management of the ASRS and its trust fund. The Board consists of nine members appointed by the governor and approved by the Arizona State Senate. Pursuant to A.R.S. § 38-713, the makeup of the Board includes:

- Five members from among the members of ASRS to represent the members of ASRS as follows:
  - An educator
  - An employee of a political subdivision
  - A retired member
  - An employee of the state
  - An at large member who may represent any one ASRS member group
- Four members who are not ASRS members to represent the public

Of the nine members, four must have at least 10 years of substantial financial and/or investment experience. Each member who represents an ASRS member group must have at least five years of administrative management experience. The members of the Board serve three-year terms and may be re-appointed on the expiration of their terms.

The Board of Trustees has only those powers and duties that have been delegated to it by the Arizona State Legislature. Within this role, the Trustees have a duty as fiduciaries under the law to act solely for the benefit of members and beneficiaries. (A.R.S. § 38-714, Arizona Constitution, Article 29, Section 1)

A list of current Board of Trustees members may be found on the ASRS website under the ASRS Central tab and Board of Trustees link.

### ASRS Director

The Board of Trustees appoints a director to oversee the administration of the ASRS. The duties of the director are specified in A.R.S. § 38-715 and include the following:

- Administer the statutory provisions related to the ASRS, including prescribing procedures to be followed
- Administer the daily operations of the ASRS, including hiring staff
- Appoint, with the approval of the Board, a custodian for the safekeeping of all investments owned by the ASRS and register stocks and bonds and other investments in the name of a nominee
- Provide continuing education programs for the Board to keep them informed of current issues and information needed to carry out their duties

## ASRS Trust Fund and Investments

### ASRS Trust Fund

The ASRS trust fund is funded from three sources:

- ❑ Member contributions based on compensation and funds for the purchase of service credit
- ❑ Employer contributions
- ❑ Investment earnings

ASRS employers and members have a continuing obligation to fund the ASRS trust fund. To "fund," in this sense, means to spread the liability for member pensions over a long period of time. The employer and member do not pay the entire liability today nor wait to pay it when a member retires, but contribute little by little over each working pay period. The contribution rate each fiscal year, as actuarially determined and approved by the ASRS Board of Trustees, must be sufficient to meet the liability over a 30-year period.

Typically, an individual member recoups their accrued contributions plus interest and service purchase monies (if purchased) within three to five years after retirement. The employer's contributions and the earnings of the ASRS provide the additional amounts necessary to fund the member's lifetime benefit.

### Investment Goals and Allocation

The ASRS Board of Trustees is responsible for the performance of fiduciary duties and other responsibilities required to preserve and protect the ASRS trust fund. (A.R.S. § 38-714) The Trustees prescribe and provide oversight of investment goals and policies consistent with the purposes, limitations, and standard of care stipulated in statute. (A.R.S. § 38-718)

The financial health of the ASRS trust fund depends on the ability to generate optimal returns from our investments while minimizing risk. This ensures the security of retirement benefits and helps keep the ongoing funding costs to our employers and active members down. The following are the ASRS investment goals:

- ❑ Achieve a total fund rate of return equal to or greater than the actuarial assumed interest rate
- ❑ Achieve a total fund rate of return equal to or greater than the asset allocation benchmark
- ❑ Achieve a total fund rate of return equal to or greater than the amount projected in the most recent asset allocation study
- ❑ Achieve asset class net rates of return equal to or greater than their respective broad asset class benchmarks

- Achieve portfolio-level net rates of return equal to or greater than their respective portfolio benchmarks
- Ensure sufficient monies are available to meet cash flow requirements

The ASRS maintains its investment assets in accordance with a Board of Trustees approved strategic asset allocation policy, which is reviewed periodically to ensure that the objectives can be met on a long-term basis. The current asset allocation policy is:

- Total Equity: 63%
  - U.S. Equity: 33%
  - Non-U.S. Equity: 23%
  - Private Equity: 7%
- Total Fixed Income: 25%
  - U.S. Fixed Income: 18%
  - Emerging Market Debt: 4%
  - Private Debt: 3%
- Total Inflation Linked Assets: 12%
  - Commodities: 4%
  - Real Estate: 8%

The ASRS uses a combination of internal and external investment managers to implement its asset allocation. The internal investment management program allows the ASRS to significantly reduce the fees paid to outside investment managers while simultaneously allowing for equivalent returns. In addition, the internal investment management program enables the ASRS to more closely monitor the external investment managers and enhances the ability of the ASRS to determine the optimal asset allocation.

A significant investment control structure exists at the ASRS, including the internal entities of investment management, compliance, investment accounting, and internal audit, as well as the external entities of the custodial bank, independent investment consultant, and external auditor.

Information on the ASRS investments is available on the ASRS website on the homepage under Administration and the Investments link. Detailed information about the ASRS investment portfolios can be found in the Comprehensive Annual Financial Report under the ASRS Central tab and Publications link.

# Chapter 3:

## EMPLOYER RESOURCES

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As ASRS benefits have become more complex, it has created an opportunity for increased and coordinated interaction between the ASRS and employers. The ASRS organizational structure focuses on providing specific support to meet particular needs in order to provide the best service.

The ASRS also provides a number of resources to assist you in meeting your retirement plan responsibilities.

### ASRS Organization and Contacts

To manage operations, the ASRS is organized into six divisions with different functional responsibilities. A brief description of each division, along with specific programs and processes that require a strong working relationship with our employers, are provided in this section. We encourage you to proactively seek answers to the topical questions that may not be answered by this manual by contacting the appropriate ASRS department and staff member, as listed, or any member of the Employer Relations Department.

**It is important to note that the ASRS staff contact information provided in this section is for employer use only.** Your employees should contact the Member Services Division's Member Advisory Center for any questions they may have. (See Member Services Division information in this chapter)

### ASRS Main Telephone Numbers

**Phoenix Metro:** (602) 240-2000

**Tucson Metro:** (520) 239-3100

Outside Phoenix/Tucson Metro: (800) 621-3778

After you dial a main line, you will reach the interactive voice response system (IVR) that provides a menu of options. Choose option "3" to reach a known extension. If you do not know the extension, choose option "7" or stay on the line and an advisor will assist you.

## External Affairs

The Employer Relations Department team in the External Affairs Division (EA) serves as the key contact and provides direct assistance to employers. The team is available by phone and e-mail to answer any employer inquires related to ASRS benefits and processes.

### ASRS Employer Relations Contacts for Employers

Michele Briggs, Employer Relations Manager	ext. 2022
Michael Carr, Employer Liaison	ext. 2147
Mark Muraoka, Employer Liaison	ext. 2093
Wendy Tobin, Employer Liaison	ext. 2124
Email: EmployerRelations@azasrs.gov	

### Topical Questions

- Membership eligibility
- Eligible compensation
- Benefits eligibility
- Contribution rates
- Access to online enrollment and contribution reporting programs and processing
- Correcting errors in contributions (previous fiscal years)
- Annual *Employer Conference* and *Basics for Employers* workshops
- Requests for forms and reports
- Clarification on legislation, statutes, rules or ASRS administrative processes
- Employer contact information, including address or staff changes
- Employer contracts and agreements
- Potential/new employer questions and orientation
- Any ASRS-related topic

EA also manages all communications, legislative affairs, rules, and contracts for our benefit administrators and serves as the Social Security Administrator for the State of Arizona as it relates to coverage under Section 218 of the Social Security Act.

### ASRS EA Contacts for Employers

Ed Rapoport, Benefit Contracts Administrator	ext. 2028
David Cannella, Media Relations/Communications Manager	ext. 2016
Lesli Sorensen, Government Relations Officer	ext. 2027
Patrick Klein, Assistant Director, External Affairs	ext. 2044

### Topical Questions

- Retiree health insurance plans
- LTD program and plan
- ASRS newsletters, publications, and website content
- ASRS information requests
- Legislation
- Rules interpretation

### Social Security Section 218 Contact for Employers

Michele Briggs, State Social Security Administrator ext. 2022

#### Topical Questions

- Employer-specific coverage and position eligibility determinations
- Copies of agreements
- Requests for modifications
- Requests to conduct a referendum for additional coverage

### Financial Services

The Financial Services Division (FSD) includes the contribution, membership, benefits, and health insurance accounting departments, as well as our records management department. The division continuously looks for ways to streamline and improve the ASRS financial reporting processes and requirements.

#### ASRS FSD Contacts for Employers

- Marcia Kumamoto, Contribution Accounting Manager ext. 2034
- Ted Kistner, Health Insurance Accounting Manager ext. 2009
- Kristi Zeller, Records Management Manager ext. 2072
- Nancy Bennett, Assistant Director, Financial Services ext. 2177

#### Topical Questions

- Submitting contributions
- Online contribution reporting processes
- Correcting errors in contribution amounts (current fiscal year)
- Processing service purchase payroll deductions
- Retiree health insurance premium benefit program
- Premium benefit authorization and reimbursement processes
- Premium benefit reports
- Online enrollment exception reports

### Administrative Services and Director's Office

The Director's Office includes executive management and staff that support the strategic planning and analysis of the agency, conduct internal and external audits for compliance, and provide information for the ASRS Board of Trustees. The Administrative Services Division (ASD) manages the internal operations of the ASRS as a state agency, including human resources, training, and budget and procurement.

### ASRS Director's Office and ASD Contacts for Employers

Management Support Manager	ext. 2040
ASRS Director	ext. 2031
Deputy Director, Chief Operations Officer	ext. 2077
Chief of Administrative Services	ext. 5355
Chief Internal Auditor	ext. 2023
Assistant Attorney General	ext. 2151

### Topical Questions

- Board of Trustees and committee meetings
- Strategic plan and operations of the ASRS
- Employer audit process
- Legal issues
- Actuarial valuations

## Member Services

The Member Services Division (MSD) provides members with different ways - through online applications, e-mail, educational meetings, appointments for in-person counseling sessions, or the telephone Member Advisory Center - to obtain information about their retirement accounts and requested transactions.

### ASRS MSD Contacts for Members

Main ASRS Telephone Number (See page 3-1 in this chapter)  
Email: AskMAC@azasrs.gov

### Topical Questions

- Member contact information, including change of address or name
- Online account balance and information
- Beneficiary information, including change in or designation of
- Benefit programs and eligibility
- Online member account access
- Requests for forms, including retirement application, and explanation of requirements
- Member invoices for Contributions Not Withheld
- Service Purchase of forfeited service, leave of absence, other public employment, or military service
- Registering and appointments for member education meetings and individual retirement counseling
- Refund of Contributions
- Reporting Death of Member
- Requests for Benefit Estimate

The ASRS adheres to state and federal privacy and public records laws which limit disclosure of certain personal identifiable information and data. The ASRS has taken steps to restrict access to a member's retirement account and information. Members have the ability to access and update their information through the ASRS website or by contacting the ASRS offices. The ASRS staff will require the

member to identify themselves by providing certain data elements before disclosing any requested information.

Employer representatives are strongly encouraged to make any requests for information to the Employer Relations Department staff directly, instead of contacting the Member Services Division. Such requests will be processed in a timely manner by the Employer Relations Department staff in accordance with established policies and procedures.

## Investment Management

The Investment Management Division (IMD) manages the internal investment management program and monitors external investment managers to achieve optimal rates of return and to safeguard the assets of the ASRS trust fund.

ASRS IMD Contacts for Employers	
Investment Management Support	ext. 2109
Comprehensive Annual Financial Report	<a href="http://www.azasrs.gov">www.azasrs.gov</a>
Topical Questions	
<ul style="list-style-type: none"><li>• Asset allocation policy</li><li>• Investment performance</li></ul>	<ul style="list-style-type: none"><li>• Investment portfolio information</li></ul>

## Technology Services

The Technology Services Division (TSD) focuses on improving existing systems and creating automated tools to support ASRS staff, employers, and members in efficiently administering ASRS benefits. Generally, any employer issues or suggestions with regard to ASRS systems can be directed to the Employer Relations Department, who will work with technical staff to resolve any difficulties.

## Employer Contacts for ASRS

The ASRS has over 700 participating employers, which have a number of dedicated staff who have the responsibility to, and are authorized to, process ASRS-related transactions on behalf of the employer. To facilitate communication between the ASRS and employer representatives, it is very important for you to keep your staff and contact information current and on file with the ASRS to ensure that the proper individuals receive important notices and publications.

When an employer initially joins the ASRS, the person in the position of authority at the employer who signs the employer's agreement for ASRS participation becomes the primary representative or "authorized agent" and point of contact with the ASRS. Please notify the Employer Relations Department, in writing, whenever the person filling this position changes. Contact the Employer Relations Department to find out who is on file as the authorized agent.

Vital communication suffers when employers do not identify key individuals to receive correspondence and policy statements from the ASRS. For example, often, the ASRS learns that the personnel department was not aware of a policy directed to the payroll department, or vice versa. Employers can ensure ASRS communications reach individuals who need to be aware of information by creating online user accounts. (See Employer Administrator for ASRS Online Applications below)

In addition, each employer should notify the Employer Relations Department, in writing, whenever there is a change in key staff or to your address, telephone or email information. These contacts create a critical connection with and improve the working relationship between the ASRS and employers.

### **Employer Administrator for ASRS Online Applications**

To access the employer functions, such as online contribution reporting and online enrollment, found on a secure area of the ASRS website, each employer must designate an individual as the Employer Administrator for ASRS online applications. The Employer Administrator has the responsibility for adding and deleting users and assigning key roles to employer staff to access the ASRS online applications.

Employers inform the ASRS of the Employer Administrator by completing an *Authorization and Designation* form. ASRS staff will enter the information into our system and provide notification that the Employer Administrator may register for account access. Instructional videos on how to register and login and the steps to follow for assigning manager, specialist and web user roles are available on the ASRS website under the Interactive Center tab and Employer Tutorials link.

To establish, verify, or change the Employer Administrator on file for your organization, contact the Employer Relations Department. We encourage the Employer Administrator and all users of the ASRS online applications to keep key staff access and telephone or email information current in the system.

## **Notes**

## Educational Resources

### Publications

In addition to this Employer Manual, the ASRS publishes a variety of communications for employers and members. Unless noted otherwise below, all of these publications are available through the ASRS website under the ASRS Central tab and Publications link.

#### Employer Publications

**Actuarial Reports** – The ASRS actuary presents an annual valuation of the ASRS Plan, System, and Long Term Disability Plan.

**Arizona Revised Statutes** – ASRS is governed primarily by Title 38 of the Arizona Revised Statutes (Title 38, Chapter 5, Articles 1, 2 and 2.1). The Arizona State Legislature provides all current state statutes online at [www.azleg.gov](http://www.azleg.gov).

**ASRS Bill Tracker** – This provides the status and a summary of legislation that is under consideration during an ongoing legislative session. It is available during sessions and can be found under the ASRS Central tab and Legislation & Rules link.

**Comprehensive Annual Financial Report (CAFR)** – The CAFR provides detailed information on finances, investments, actuarial data, and general statistics of the ASRS.

**Employer Update** – This newsletter provides information and notification of ASRS changes, as it relates to employers' responsibilities, on specific and topical issues.

**Long Term Disability (LTD) Program Employer Guide** – This guide provides instructions for processing an LTD claim and related employer responsibilities. It is available on the ASRS website under the Employers tab and Employer LTD Information link. Authorized employer staff may access required employee and employer claim forms by logging in to the secure employer area of the ASRS website or by contacting the Employer Relations Department.

**Summary of Retirement Legislation** – This provides a summary of changes in legislation that passed in a legislative session. It is published after the conclusion of the session and can be found under the ASRS Central tab and Legislation & Rules link.

## **Member Publications**

**Member Handbook** – This serves as a guide for members and outlines the benefits of participating in the ASRS.

**Financial Horizons** – This newsletter is distributed to all active, inactive, and retired members to inform them on issues such as retirement planning, legislative changes, and ASRS operations.

**Retirement Handbook** – This provides information specifically for members who are within one year of retirement.

**Long Term Disability (LTD) Program Employee Brochure** – This provides a description of the LTD program benefits, eligibility, and claim process requirements for members. It is republished as often as changes are required and can be found under the Members tab and Long Term Disability link.

**Your Retirement** – This newsletter is designed for retired and disabled members and focuses on health insurance and pension topics.

## **Meetings**

The ASRS provides instructional training for employers and members through traditional meetings, webinars, and video tutorials. Dates and times for upcoming meetings and webinars can be found within the meeting registration tools accessible to members and employers who are logged in to accounts on the ASRS website; video tutorials can be found under the Interactive Center tab.

### **Employer Meetings**

**ASRS Basics for Employers** – This is a training workshop intended for employer staff that are new to their role working with ASRS. It gives an overview of the ASRS and details the employer responsibilities as they relate to topics such as membership requirements, LTD, contribution reporting, and retirees returning to work.

**Employer Conference** – This annual conference is intended for staff from all employers and attendance is highly recommended every year. It provides employers with new and current information on forms, legislation, and process changes that may affect them.

**On-site Training** - Employers may request that an ASRS employer liaison provide on-site training or present on any topic to assist employer staff in conducting ASRS-related business processes.

### **Member Meetings**

**Know Your Benefits** – This overview of the ASRS provides a summary of the many benefits of being a member. This meeting is presented online as a one-hour

webinar so members can participate from any location with a computer and internet connection.

***Know Your Insurance*** – Members who are nearing retirement can receive information about the ASRS retiree group health insurance options and the premium benefit program at this meeting.

***Planning for Retirement*** – For members who are contemplating retirement with three years, this meeting provides information about how a pension benefit is calculated, annuity options, and retiree health insurance. This meeting is also presented online as a one-hour webinar so members can participate from any location with a computer and internet connection.

***Retire Now*** – This meeting is for members who are planning to retire within four months. It provides information about how a pension benefit is calculated, retiree health insurance, and return to work options. Registered attendees receive a personal benefit estimate and assistance in completing proper paperwork.

***On-site Member Meeting*** – Employers may request that an ASRS benefit advisor conduct an on-site *Know Your Benefits*, *Planning for Retirement*, or *Retire Now* meeting for their employees if there are 15 or more people who will attend.

## **Technical Resources**

The ASRS website is a valuable resource for both employers and members and can answer many questions about ASRS benefits and services. In addition to publications and training events, the website has secure online tools for completing transactions.

The secure employer area of the website allows authorized employer staff to access the online applications for contribution reporting, enrollment, and ending payroll verification, the most current version of blank forms, processing guides, reports, and employer communication tools (secure email), as well as register to attend employer meetings.

The secure member area of the website allows members to view their ASRS account information, update personal information, register to attend educational meetings, and use the benefit estimator to plan for retirement. The ASRS encourages all members to register for online access to their ASRS information.

# Chapter 4: MEMBERSHIP

ASRS membership is a mandatory condition of employment for all employees who meet the eligibility and membership criteria defined in statutes. (A.R.S. § 38-711(23), § 38-727)

Only those who meet the membership criteria shall be members. Neither the employee nor the employer has a choice regarding membership. A qualifying employee cannot reject membership; employees who do not meet the criteria cannot choose membership.

One of the most important responsibilities you have is to enroll in the ASRS all employees who meet membership criteria and not enroll those employees who do not meet membership criteria.

**NOTE:** *This section covers the membership criteria that apply at the time of publication. These criteria have changed periodically over the years. To learn more about the membership criteria for a previous time period, see Appendix B: Historical Membership Criteria or contact the Employer Relations Department.*

## Employer Participation Agreements

Each employer who participates in the ASRS must:

- ❑ Be considered an eligible political subdivision of the State of Arizona. This means the entity must be established in accordance with relevant statutes and other legal requirements.
- ❑ Receive the approval of the employer's governing body to enter into any agreements
- ❑ Obtain coverage for Social Security under Section 218 of the Social Security Act by entering into an agreement that is signed and approved by the Social Security Administration
- ❑ Submit information regarding active retirement plans at the employer. In some cases, to enter into the agreement to participate in the ASRS, the employer may be required to dissolve certain types of plans.
- ❑ Have an authorized agent sign the applications and agreements as required by the ASRS

Each employer's agreement identifies the date of the employer's coverage under Social Security and entry into ASRS, eligible positions by group, and current or past service recognition. You should maintain a copy of your original participation agreement and all modifications in your files. Contact the Employer Relations Department with questions regarding your agreement.

Once an employer's agreement for Social Security coverage under Section 218 becomes effective, the agreement cannot be terminated. The Social Security

Administration may take dissolution action if provided with acceptable documentation that the employer has legally dissolved as an entity, in accordance with statutory requirements. Simply ceasing to conduct business, changing ownership, or moving operations to another location or organization is not considered legal dissolution.

Once an employer's agreement for ASRS coverage becomes effective, there is no provision in law to allow an employer to opt out of participating or to terminate the agreement. In addition, effective January 2, 2013, the ASRS may allocate a liability to an employer who no longer participates in the ASRS if that nonparticipation is based on certain conditions. (A.R.S. § 38-751)

Because both the Social Security Section 218 and ASRS agreements may have specific applications based on the factors in place as of the effective date of the agreement, any fundamental organizational changes, such as name changes, mergers with other entities, consolidation of services, adding additional locations or dissolution must be reported to the ASRS to determine the impact on participation.

## Criteria for Membership

As of the effective date of the employer agreement to participate in the ASRS, employees must become members when membership criteria are met. There are two criteria for your employees to become ASRS members, and both must be met:

- ❑ They must be in an eligible position
- ❑ They must be engaged to work at least 20 hours per week for at least 20 weeks in a fiscal year. **The ASRS fiscal year begins July 1 of any calendar year and ends on June 30 of the following calendar year.**

***NOTE:** Generally, membership is based only on these two criteria. However, there are statutory provisions that outline positions and employees who are not eligible or for whom membership is not mandatory. (See Who is Not a Member? in this chapter)*

### Position Eligibility

An employee must be in an eligible position in order to become a member. Eligible positions are positions that are:

- ❑ Included in an employer's agreement for Social Security coverage under Section 218 of the Social Security Act (Section 218 agreement), and
- ❑ Not covered by another state retirement program (See Who is Not a Member? in this chapter)

The Section 218 agreement may exclude some classifications of positions from Social Security coverage based on language in the agreement, the effective date,

and other factors. This is important to note because **an employee in a position that is not included for Social Security coverage under the provisions of Section 218 is *not* eligible to become an ASRS member with that employer. (A.R.S. § 38-727)**

The State of Arizona entered into a Section 218 agreement in 1951. Arizona's master Section 218 agreement excludes from coverage services performed by students (of the educational institution for which the student attends school and works) and election workers with earnings not exceeding a certain amount in a calendar year. (As of 2009, the earnings amount is \$1,500, but the exclusion for election workers is indexed to inflation; more information can be found at [http://www.ssa.gov/slge/election\\_workers.htm](http://www.ssa.gov/slge/election_workers.htm).)

When a political subdivision employer signs a Section 218 agreement, they fall under the umbrella of the state's agreement. Employees who are students or election workers are excluded from each employer's Section 218 Social Security coverage.

Although all employers share, for example, these two exclusions, each employer may also have opted to exclude other types of positions in their individual agreements. Therefore, each employer's agreement is unique and application of the agreement to certain positions may not be the same as another ASRS employer's application to similar positions.

In addition, positions may be excluded due to factors that are in place at the time the employer signs a Section 218 agreement. For example, Social Security rules provide that a position covered by a retirement plan on the effective date of the Section 218 agreement is excluded from coverage for Social Security and Medicare under that provision of the Social Security Act.

***NOTE:*** *The following positions are frequently excluded from Section 218 agreements:*

- ❑ *Fire personnel (with the exception of a few fire districts that had no other retirement plan in place when they entered the agreement)*
- ❑ *Police officers (with the exception of municipalities that had no other retirement plan, either mandatory or by ordinance, in place when they entered the agreement)*

Again, if a position is not included for coverage under Section 218 of the Social Security Act, the person in that position does not meet ASRS membership criteria. It is the position, or classification of positions, that determines whether an individual meets the ASRS position eligibility membership criteria - not the person's personal circumstances, the working title of the position, or the number of hours worked.

**NOTE:** *Be aware that even though you may be deducting Social Security from an employee's pay, this does not mean the employee is eligible for ASRS membership. You may be withholding Social Security under different provisions. (See Chapter 9: Additional Benefit Programs - Social Security and Medicare) To meet position eligibility, Social Security coverage (and deductions) must be based on Section 218 coverage.*

## **20/20 Criteria**

Once you have determined that an employee is in an eligible position, you must apply the second membership criteria, which is based on the duration and terms of employment.

An employee becomes a member of the ASRS when that employee is engaged to work at least 20 hours a week for at least 20 weeks in a fiscal year. (A.R.S. § 38-711(23)(b)) This is also referred to as the “20/20 criteria” for membership.

Although you may exclude an employee from certain employer-provided benefits or use different employment terms, ASRS membership is determined solely by the ASRS statutory provisions or state law, not by employer personnel rules or employment classifications. There are no specific provisions in statute regarding common employment terms such as part-time, temporary, probationary, substitute, visiting faculty, contract, salaried or hourly employee, on-call, spot or any other similar employment classifications. Regardless of the employer's classification, if an employee meets ASRS membership criteria, that employee becomes a member and you must withhold and report contributions as outlined in this manual; if the employee does not meet the membership criteria, you must not withhold and submit contributions.

If an employee's initial terms of employment do not meet membership criteria but conditions or actual hours/weeks worked change, the employee may become a member. For example, if an employee is engaged to work but the number of hours and weeks are not pre-determined and they work sometimes more and sometimes less than 20 hours in a week, that employee becomes a member at the start of the 20th week in a fiscal year of working 20 or more hours. The 20 weeks do not need to be consecutive. In this situation, the membership is not retroactive to the beginning of employment.

Once an employee meets membership eligibility in a fiscal year, they remain an active (contributing) member until the end of the fiscal year. If employment is continuing and the terms of employment are known to meet the 20/20 criteria, active membership continues into the next fiscal year. If the terms of employment are not pre-determined, active membership ceases at the end of the fiscal year and would resume only if and when the employee meets the 20/20 criteria in the next fiscal year.

**Example #1:** An employee is hired to begin working on April 1, for 40 hours each week, on a permanent basis. The employee meets membership criteria on April 1. Even though there are fewer than 20 weeks in the current fiscal year the intent of the employment is to be engaged to work and meet the 20/20 criteria for membership indefinitely and through subsequent fiscal years.

**Example #2:** An employee is hired to begin working on September 1, for 40 hours each week, for approximately 10 weeks. The employee does work 40 hours each week for 10 weeks and then terminates. The employee does not become a member because they are not engaged to work more than 10 weeks and do not meet the 20/20 criteria for membership.

**Example #3:** An employee is hired to begin working on September 1, for 40 hours each week, for approximately 10 weeks. The employee does work 40 hours each week for 10 weeks. However, the employee continues to work 40 hours each week for an additional 15 weeks (a total of 25 weeks) and then terminates. The employee meets membership criteria at the start of the 20<sup>th</sup> week because they actually met the 20/20 criteria for membership even though that was not the original intent or terms of employment.

**Example #4:** An employee has been working for an employer for eight years and meeting the 20/20 criteria for membership. She terminates on December 31. In March, the same employer rehires her to work 10 hours each week indefinitely. The employee is still considered an active (i.e., contributing) member from March to June because she has already met membership with that employer in that fiscal year. In July, after the employer conducts an analysis of the intent of the continued employment and confirms she is engaged to work only 10 hours per week, she ceases to be an active member (i.e., contributions stop).

### **Dual Employment**

An employee does not qualify for membership unless the 20/20 criteria are met with each ASRS employer by whom they are employed. Even if an employee works at more than one ASRS employer during the same time frame, do not consider the employee a member (and do not withhold contributions) if the 20/20 criteria is not met with you, as a single employer, or unless the employee falls under the dual employment provisions outlined below.

Effective January 1, 2010, secondary employment that does not meet the 20/20 criteria for membership **must** be included in ASRS membership if it is not excluded from Section 218 coverage and if **ALL** of the following conditions are met:

- ❑ Employment with the second employer began between January 1, 2005 and December 31, 2009
- ❑ The employee continued employment or resumed employment for the same second employer before January 1, 2012

- The employee does not leave the second employment in an unpaid status for more than 30 consecutive days during the employee's service year

If the employee leaves the second employment in an unpaid status for more than 30 consecutive days during the service year, a return to employment with the second employer may **not** be included in ASRS membership again unless the employee meets the 20/20 criteria for the second employer. Service year is the fiscal year unless the normal work year is less than the full fiscal year but is a period of at least nine months; then the service year is the normal work year. (A.R.S. § 38-711 & Laws 2009, Chapter 36, Section 21)

## When Membership Begins

Employees who meet the membership criteria become members on the earlier of:

- The effective date (start date) of employment for which they are hired or engaged to work for at least 20 weeks in a fiscal year and for 20 or more hours each week (A.R.S. § 38-711(23)(b)), or
- The first day of the 20th week in a fiscal year in which they work 20 or more hours. In this case, membership is not retroactive to the effective date of employment.

**NOTE:** To determine the 20<sup>th</sup> week, count the weeks an employee works 20 or more hours. Do not count weeks during which the employee works fewer than 20 hours.

- State employees who are hired to begin employment on or after July 20, 2011, and who are not already ASRS members are subject to a 26-week waiting period. These state employees become ASRS members on the 27th week of employment if membership criteria are met. (See Chapter 6: Contribution Reporting – Special Reporting Situations) State employees who have a state adjusted hire date prior to July 20, 2011, and who have had a break in state service of less than two years are exempt from the waiting period.

**NOTE:** An employer representative may log in to the secure employer account on the ASRS website and select the Check Member Eligibility link to determine the current status of an employee.

A state employee is an individual who is employed by a state agency, department, board, or commission, a state university, the judicial branch (whose salary is paid through the Arizona Department of Administration), the Arizona Corporation Commission, or the Legislature. (A.R.S. § 38-671)

## Notes

## Who is Not a Member?

Do not include in ASRS membership any employee who is hired to work:

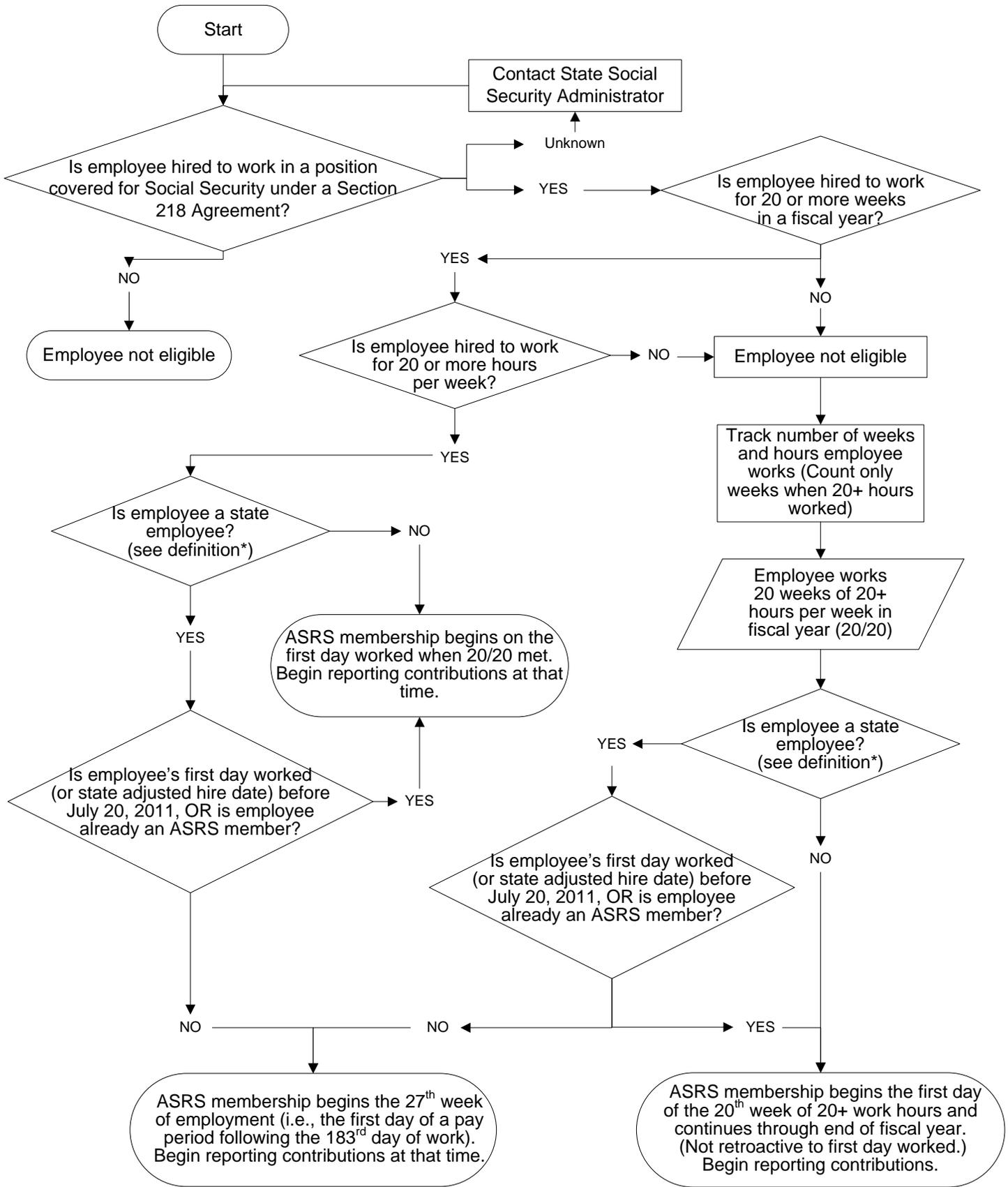
- ❑ In a position that is excluded from your Section 218 agreement (A.R.S. § 38-727)
- ❑ Fewer than 20 weeks in the fiscal year (A.R.S. § 38-711(23)(b))
- ❑ Fewer than 20 hours per week (A.R.S. § 38-711(23)(b))
- ❑ In a limited appointment position for not more than 18 months. If the employment extends beyond 18 months, membership becomes mandatory as of the beginning of the 19th month. (A.R.S. § 38-711(23)(e))  
**NOTE:** *To be eligible for this exclusion, the ASRS Director must approve the position for exclusion from ASRS coverage. For specific information related to a limited appointment position, contact the Employer Relations Department.*
- ❑ In a position covered under:
  - Another Arizona state retirement program and the individual participates in that retirement system (A.R.S. § 38-727(1))
  - An optional retirement program authorized by the Arizona Board of Regents or a community college district and the individual participates in that retirement program (A.R.S. § 38-727(1)) (See Chapter 9: Additional Benefit Programs - University and Community Colleges Optional Retirement Programs)
- ❑ In a position normally covered by another state retirement program, but for which the employee is personally ineligible to participate, and the position is excluded from your Social Security Section 218 coverage (A.R.S. § 38-727(1))  
**NOTE:** *There are some cases when an employee's position is included under another retirement system; however, they may be personally ineligible to participate in the other retirement plan due to retirement status (e.g., already receiving a retirement benefit from that plan) or other eligibility rules. Even if an individual is unable to participate in one of the other retirement systems, if the position is not included for Social Security coverage under Section 218, the individual may not meet ASRS membership criteria.*
- ❑ In a position as a temporary employee of the legislature for a period not to exceed six months. If the employment extends beyond six months, coverage begins the first day of the seventh month. The employee may elect to receive service credit for the first six months. In this event, the employee and the employer must pay the required contributions for the earlier period within 45 days after the end of the six-month period. (A.R.S. § 38-727(5))
- ❑ In postgraduate training in an approved medical residency training program or hired into a postdoctoral scholar position by a university after July 1, 2007 (A.R.S. § 38-727(6))
- ❑ As an employee of the Arizona Legislature or a term-limited state legislator who elects to participate in the State Money Purchase Plan established in Chapter 329, Laws of 1999, Section 1, in lieu of ASRS membership (A.R.S. § 38-727)

- As an employee of the Arizona State Legislature, a term-limited state legislator, or exempt state employee who elects to participate in the Defined Contribution Retirement Plan Option established in Chapter 329, Laws of 1999, Section 6, in lieu of ASRS membership (A.R.S. § 38-951)
- As an ASRS retired member who neither voluntarily suspends their retirement benefit nor meets active membership criteria and who complies with all of the statutory conditions to retain their benefit (See Hiring Retired Employees in this chapter)
- As an employee who elects not to participate in the ASRS because they meet all of the following criteria:
  - The employment began after the person reached age 65
  - The person is not an active, inactive, or retired member nor receiving benefits from the ASRS
  - The person has no credited or prior service in ASRS
  - The person filed with the ASRS, via the ASRS *65+ Membership Waiver* form, their election not to participate within 30 days of the start of employment (See sample form in this chapter) (A.R.S. § 38-727)

**NOTES:** *The employee's election under this provision is irrevocable for the duration of the employment and constitutes a waiver of all benefits provided by the ASRS, including the ability to purchase the time of employment as service credit in the future. The 65+ Membership Waiver form is available on the secure employer portion of the ASRS website by selecting the Forms & Packets link.*

## Notes

# ASRS Membership Eligibility



\*A state employee is an individual who is employed by a state agency, department, board, or commission, a state university, the judicial branch (whose salary is paid through the Arizona Department of Administration), the Arizona Corporation Commission, or the Legislature. (A.R.S. § 38-671)

**Sample form:  
65+ Membership Waiver Form**



**ARIZONA STATE RETIREMENT SYSTEM (ASRS)  
65+ MEMBERSHIP WAIVER FORM**

COMPLETE AND SEND TO:  
ASRS Financial Services  
PO Box 33910  
Phoenix, AZ 85067-3910

ASRS Numbers  
Phoenix (602) 240-2000  
Tucson (520) 239-3100  
Toll-Free (800) 621-3778  
Fax (602) 240-2093  
www.azasrs.gov

PLEASE PRINT OR TYPE

Disclosure of your Social Security number is mandated by Section 6109 of the Internal Revenue Code. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account and to inform the Internal Revenue Service of distributions and withholdings with respect to the individual's account.

This Waiver Form must be filed with the ASRS within thirty days of employment.

Employee Information			
Social Security Number	Employee Name (Last)	(First)	(Middle Initial)
Date of Birth (MM/DD/YYYY)	Marital Status (Check One) Single <input type="checkbox"/> Married <input type="checkbox"/>	Gender (Check One) Male <input type="checkbox"/> Female <input type="checkbox"/>	
Address			
City		State	ZIP Code
E-Mail Address		Home Telephone Number ( )	
<ul style="list-style-type: none"> <li>By my signature below, I elect to waive my rights to ASRS membership since I began working at age 65 or older. I am making this election within 30 days of employment. I understand that I will not be eligible for any retirement, disability or health insurance benefits offered by the ASRS.</li> <li>By my signature below, I acknowledge that I am not an active, inactive, disabled or retired member with the ASRS.</li> <li>By my signature below, I acknowledge that this election is <u>irrevocable</u> for the remainder of my employment with this employer, and the time I work is not eligible for future purchase in the ASRS.</li> </ul>			
Employee Signature		Date	

Employee Information to be Completed by the Employer <u>ONLY</u>		
Employer Name	Employer Number	Employment Start Date
Employee Annual Salary	Number of Hours per Week Worked (Check one - provide weekly hours.) <input type="checkbox"/> Estimated <u>or</u> <input type="checkbox"/> Actual weekly hours= _____	
Employer Payroll or HR Manager Name (Print)	Employer Phone Number ( )	
Employer Payroll or HR Manager Signature	Date	

**Employer: This form must be received by the ASRS within 30 days of employment. Do not withhold ASRS contributions for the employee electing to waive ASRS membership.**

## Enrollment

Each new employee who meets ASRS membership criteria must complete an ASRS enrollment, as prescribed by the ASRS. The enrollment process documents the member's employment and membership. As such, it serves the following purposes:

- ❑ Informs the member that the employer will withhold retirement and LTD contributions and remit the contributions along with employer amounts to the ASRS
- ❑ Provides the ASRS the demographic information necessary to establish and provide access to the member to their ASRS account information

### ASRS Enrollment Process

All members must be enrolled in the ASRS through an online process using the ASRS website. Members receive enrollment instructions, along with required information, such as the employer's unique identifying Region Code, from the employer.

After an employee enters their information, an authorized employer representative may log in to the secure employer account on the ASRS website to confirm eligibility and submit the enrollment to the ASRS. Employers have the ability to access reports that show a list of individuals for whom the ASRS has received only an enrollment or contributions. The ASRS will use the enrollment to create the member's retirement account and credit submitted contributions to that account.

**NOTE:** *Be sure to compare the SSN as shown on the online ASRS enrollment with your records and resolve any discrepancy, including eligibility, before submission to the ASRS. You should also verify the spelling of the member's name.*

The ASRS has created instructional videos to assist employer representatives in accessing and utilizing the online ASRS enrollment application. These videos are available on the ASRS website under the Interactive Center tab and Employer Tutorials link.

### Correcting Membership Errors

An ASRS employer may inadvertently fail to enroll an eligible member for participation in the ASRS at the time the member meets membership criteria or may enroll an employee who does not meet membership criteria.

For more information about how to correct enrollment and contributions submitted (or not submitted) in error, see Chapter 6: Contribution Reporting. The process you will follow depends on whether the error occurred in the current or a prior

fiscal year. In addition, because the criteria for membership have changed over the years, please refer to Appendix B: Historical Membership Criteria.

## **Beneficiary Designation**

Each member should designate a beneficiary to document the member's choice of individual, institution, trustee or estate to receive an ASRS survivor benefit in the event of the member's death before retirement.

When a member completes an online ASRS enrollment, they receive instructions about when and how to designate a beneficiary. If the member enters an e-mail address, an e-mail notification will be sent after the member account is created, with additional instructions about naming a beneficiary. If the member does not enter an e-mail address during the enrollment process, they will not receive a notice.

Members may create and use their own ASRS member account online to designate a beneficiary using the Beneficiary Details link. This quick and efficient method permits the member to:

- Designate an initial beneficiary
- Add to a previous designation
- Change a previous designation

The ASRS allows the member to name multiple primary co-beneficiaries and, if desired, a secondary beneficiary in the event the primary beneficiary election is no longer valid. When naming multiple co-beneficiaries, the member should indicate the percentage of the survivor benefit to be paid to each named beneficiary.

The member must enter the Social Security number of all beneficiaries included in the beneficiary designation. The SSN is necessary for identification and tax-reporting purposes. If the member is listing an estate, trust fund, or an organization as the beneficiary, a federal TIN may be used. A federal TIN may be obtained from the Internal Revenue Service. If the beneficiary is not a citizen of the United States, the beneficiary must submit a federal tax identification (TIN) number at the time of payout.

### **Common Questions about Enrollment and Beneficiary Designations**

**Question 1:** Is an ASRS enrollment required from a member who already has a retirement account established due to employment with another ASRS employer?

**Answer 1:** Yes. An ASRS enrollment is required for each employer for whom the member works in order for the employer to verify that the employee meets membership criteria and for the ASRS to match and properly credit the contributions submitted by the new employer to the member's account.

**Question 2:** What happens if an ASRS enrollment is not completed?

**Answer 2:** The ASRS will create a contribution account for an employee for whom contributions are submitted but no enrollment is received. You will be able to view a report of employees for whom we have contributions but no enrollments. If an ASRS enrollment is not completed, the member will not receive communications and service with regard to their account.

**Question 3:** What happens if the member's SSN is entered incorrectly during ASRS enrollment?

**Answer 3:** The ASRS system will identify SSNs and individuals for whom we have received only an enrollment or contributions. Employers will be able to view reports to show those that do not match and can correct the error. If contributions are reported under two different SSNs, the ASRS requires a copy of the Social Security card and validation of the name and number or other appropriate information to document a correction and merge the accounts.

**Question 4:** What happens if the member changes their name after enrollment?

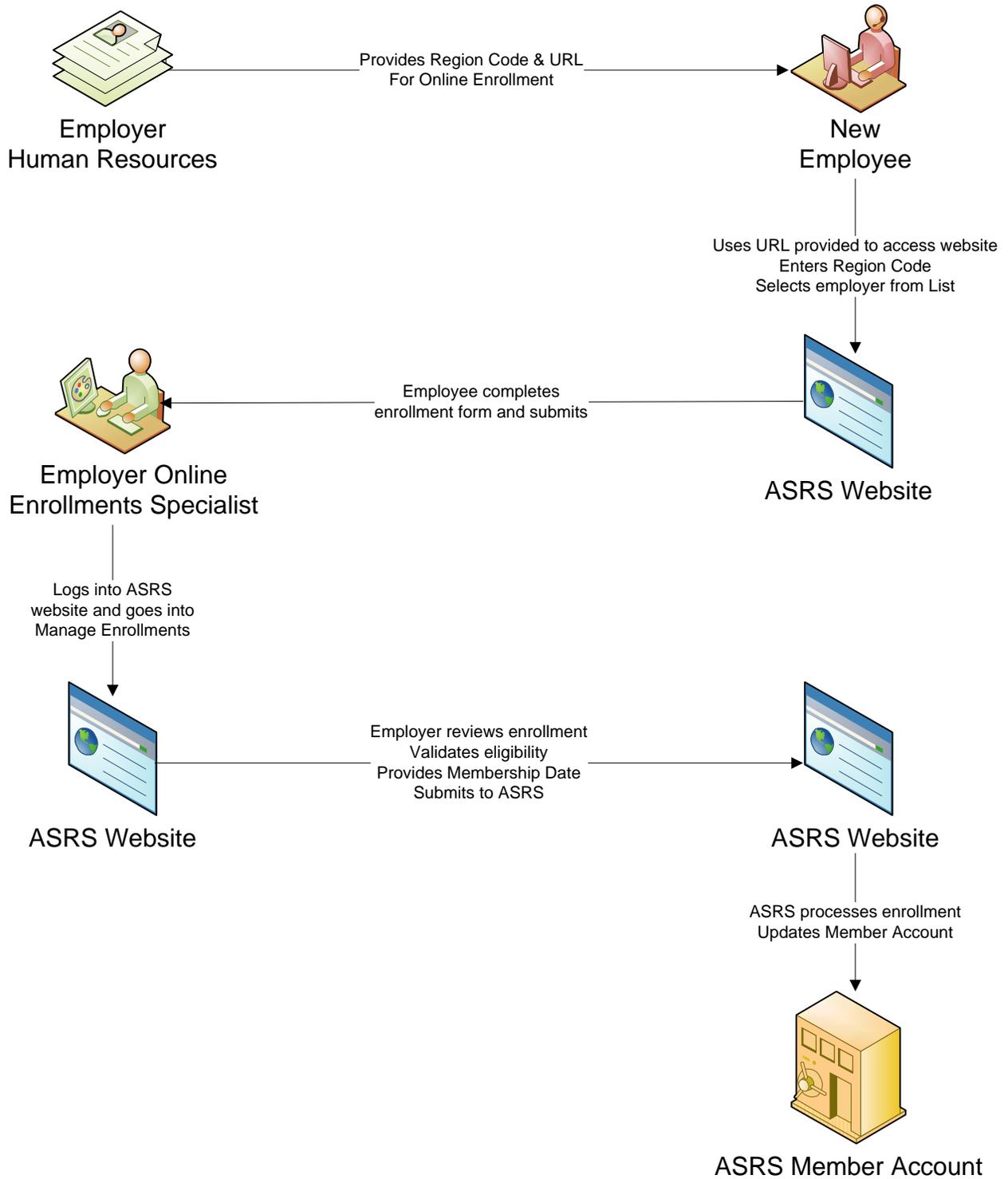
**Answer 4:** A member should notify the ASRS of a name change by providing the required information and forms. If the ASRS is not advised and contributions are reported under the new name, ASRS may or may not be able to post the contributions to the member's account. To reduce the possibility of errors or delays, a member should provide any changes to the ASRS when making changes with the employer.

**Question 5:** Must the member designate a beneficiary?

**Answer 5:** The member names a beneficiary to designate the person or entity to receive survivor benefits in the event of the member's death before retirement. If the member has not designated a beneficiary online or submitted a completed Beneficiary Form to ASRS, in the event of the member's death the ASRS will pay a survivor benefit according to Arizona law. This may not be what the member would have wanted.

## Notes

# Online Enrollment Process



## Hiring Retired Employees

An employee who is already receiving a retirement benefit, whether from the ASRS, another state retirement plan, or a private entity, is treated the same as any other employee in determining membership. As a general rule, if a retiree accepts an eligible position and agrees to work or actually does work 20 or more weeks in a fiscal year for 20 or more hours per week, the retiree meets membership criteria and must make contributions.

**NOTE:** An employer representative may log in to the secure employer account on the ASRS website and select the *Check Member Eligibility* link to determine the current status of an employee.

There are some exceptions to this general rule; however, you should be aware of the potential impact on an employee's retirement status, particularly when:

- Hiring an ASRS retired member into a position covered by another state retirement plan (see *Working after Retirement Guidelines* in this chapter). The other retirement plans include:
  - Public Safety Personnel Retirement System (PSPRS)
  - Corrections Officer Retirement Plan (CORP)
  - Elected Officials' Retirement Plan (EORP)
  - An optional retirement plan sponsored by the Arizona Board of Regents or a community college district
- Hiring a retired member of another state retirement plan. The effect of ASRS membership on the member's other retirement benefit is determined according to the rules of the other retirement plan.

### Resuming Active Membership

If an ASRS retiree is hired to work for an ASRS employer and meets active membership criteria then active contributions must begin and the ASRS must suspend the member's retirement benefit until the member terminates employment or reduces work hours and re-retires.

If the retired member voluntarily resumes active membership, the member must advise the ASRS in writing at the same time that active contributions resume. If the retired member fails to notify the ASRS of their intent to resume active membership in a timely manner, pension benefit overpayments may be created.

### Return to Work Violations

Return to work violations occur when an ASRS retiree meets ASRS membership criteria and does not resume active membership. This does not include retirees who are exempt from active ASRS membership (see *Working after Retirement Guidelines* in this chapter).

A.R.S. § 38-766(B) requires a retiree whose pension has been suspended pursuant to A.R.S. § 38-766(A) to repay retirement benefits received from either the date:

- ❑ The ASRS notifies the retiree in writing of the suspension, or
- ❑ The ASRS determines the retiree knew or should have known the member's employment resulted in active membership in violation of A.R.S. § 38-766(A)

Alternatively, the ASRS may determine any other period of pension repayment that approximates the duration of the member's violation.

The ASRS will review all information and reports regarding retirees who are working after retirement to identify possible violations. When a violation is discovered, the ASRS will send the member a *Retiree Return to Work Notice of Non-Compliance with ASRS Statutes* form indicating the date of notification or date determined. (See sample form in this chapter) The member will have 14 calendar days to return the form and any required documentation to the ASRS. During this 14-day period, the member's benefit will not be suspended. If the form is not returned by the due date, the member's pension will be suspended retroactively to the date of notification or date determined as printed on the form and overpayment processes will begin.

While the member may be required to repay pension overpayments, A.R.S. § 38-766(G) requires an employer to pay an alternate contribution rate (ACR) for a retired member whose pension is subject to suspension. This ACR for non-compliance must be applied to the retiree's compensation starting with the date the retiree returned to work through the earlier of the date:

- ❑ The retiree terminates,
- ❑ The retiree returns to active membership, or
- ❑ The employer begins paying an ACR pursuant to A.R.S. § 38-766.02. (See Chapter 6: Contribution Reporting – Reporting Rehired ASRS Retirees)  
**NOTE:** *An employer may have already started reporting and submitting payments to meet the ACR requirements as of the date the retiree returned to work. If this is the case, no additional ACR or alternate contributions are required for the return to work violation.*

The *Retiree Return to Work Notice of Non-Compliance with ASRS Statutes* form requires the member to indicate the member's intention to take one of the following actions:

- ❑ Terminate employment. If the member terminates employment and remains terminated, the employer will be required to pay the ACR based upon compensation paid beginning with the date of post-retirement employment (or July 20, 2011, whichever is later) through the date of termination.
- ❑ Continue employment with hours reduced to less than 20/20 criteria. In this case, the employer will be required to pay the ACR contributions based upon

compensation paid beginning with the date of post-retirement employment (or July 20, 2011, whichever is later) and continue to pay the ACR pursuant to A.R.S. § 38-766.02.

- Continue employment with hours that meet 20/20 criteria. Since this employment will resume active membership, the employer will be required to pay the ACR contributions based upon compensation paid beginning with the date of post-retirement employment (or July 20, 2011, whichever is later) up to the date on which active contributions begin.
- Continue employment with hours that meet 20/20 criteria and appeal the violation notice. If the violation notice is upheld, the employer will be required to pay the ACR contributions based upon compensation paid beginning with the date of post-retirement employment (or July 20, 2011, whichever is later) up to the date on which the member terminates employment or resumes active membership and active contributions begin.

### **Maintaining Retired Member Status**

If an ASRS retiree is hired by a former or another ASRS employer and does not meet active membership criteria and/or otherwise meets the conditions outlined in the statutes that govern a retired member's return to work, the member may continue to receive a retirement benefit. (See Working after Retirement Guidelines in this chapter)

However, to mitigate the potential actuarial impact that retired members who return to work might have on the ASRS Trust Fund, an ASRS employer is required to pay contributions at an alternate contribution rate (ACR) for all ASRS retirees who return to work in any capacity with an ASRS employer. (See Chapter 6: Reporting Contributions – Reporting Rehired ASRS Retirees)

## **Notes**

**Sample form:**  
**Retiree Return to Work Notice of Non-Compliance with ASRS Statutes**



**ARIZONA STATE RETIREMENT SYSTEM (ASRS)**  
**RETIREE RETURN TO WORK**  
**NOTICE OF NON-COMPLIANCE WITH ASRS**  
**STATUTES FORM**

PLEASE PRINT  
 COMPLETE AND SEND TO:  
 ASRS  
 Attn: Benefits Accounting  
 PO Box 33910  
 Phoenix, AZ 85067-3910  
 Phoenix (602) 240-2000  
 Tucson (520) 239-3100  
 Toll-Free (800) 621-3778  
 Fax (602) 240-5388  
 www.azasrs.gov

Disclosure of an individual's Social Security number is mandated by Section 6109 of the IRC. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account and to inform the IRS of distributions and withholdings with respect to the individual's account.

**DATE OF NOTIFICATION:** \_\_\_\_\_ **DUE DATE:** \_\_\_\_\_

**RETIREE:** The ASRS is in receipt of documentation that you are in violation of Arizona Revised Statutes § 38-766. **You must complete and submit this form to the ASRS by the Due Date listed above** or your pension will be suspended, you will resume active ASRS membership, and you will be required to repay all retirement benefits received from the Date of Notification, the date you knew or should have known your employment resulted in active membership, or any other appropriate date as determined by the ASRS.

**EMPLOYER:** You must review and sign this form after the employee signs below.

SECTION 1 – Member Information			
Social Security Number	Member Name (Last)	(First)	(Middle Initial)
SECTION 2 – Current Employment Status (Select only one.)			
<input type="checkbox"/> <b>I WILL TERMINATE OR HAVE ALREADY TERMINATED MY EMPLOYMENT:</b> <ul style="list-style-type: none"> <li>I will remain terminated from all ASRS employment.</li> <li><b>Employer:</b> By signing this form you attest that the employee's employment has been terminated or will be terminated by the Due Date shown above. Member's termination date: _____.</li> </ul>			
<input type="checkbox"/> <b>I WILL CONTINUE EMPLOYMENT BUT WILL REDUCE MY HOURS BELOW THE 20/20 CRITERIA:</b> <ul style="list-style-type: none"> <li>I understand I cannot work or be engaged to work hours that will meet the 20/20 criteria for the duration of my current employment.</li> <li><b>Employer:</b> By signing this form you attest that the employee will not be permitted to work or be engaged to work hours that will meet the 20/20 criteria for the duration of the employee's employment.</li> </ul>			
<input type="checkbox"/> <b>I WILL CONTINUE 20/20 EMPLOYMENT:</b> <ul style="list-style-type: none"> <li>I understand the ASRS will suspend my pension and I must repay the pension and premium benefit payments I received from a date elected by the ASRS.</li> <li>I understand I will resume active ASRS membership.</li> <li><b>Employer:</b> You will remit active contributions on the member's behalf.</li> </ul>			
<input type="checkbox"/> <b>I WILL CONTINUE 20/20 EMPLOYMENT AND WILL SUBMIT AN APPEAL:</b> <ul style="list-style-type: none"> <li>I understand I must submit my appeal letter within 14 calendar days of the Date of Notification and my pension will not be suspended during the appeal process. If the appeal is not resolved in my favor, the ASRS will suspend my pension and I must repay the pension and premium benefit payments I received from a date elected by the ASRS. I will direct my appeal letter to: ASRS, Attention: Director, P.O. Box 33910, Phoenix, Arizona 85067-3910.</li> <li><b>Employer:</b> You will remit active contributions on the member's behalf.</li> </ul>			
SECTION 3 – Retiree Statements of Understanding			
<ul style="list-style-type: none"> <li>In the future, if I change my work hours above or below the 20/20 criteria with my current employer or I accept direct employment with a different ASRS employer, I must submit a new <i>Retiree Return to Work for an ASRS Employer</i> form within 30 days of the change or acceptance, wait 365 days from the date I terminate direct employment with my current ASRS employer, AND be at normal retirement before I can work or be engaged to work 20/20. Forms are available at <a href="http://www.azasrs.gov">www.azasrs.gov</a>.</li> <li>I have read the <i>Working After Retirement Guidelines</i> (available at <a href="http://www.azasrs.gov">www.azasrs.gov</a>).</li> <li>Any person who knowingly makes any false statement, or who falsifies or permits to be falsified any record of the retirement plan with an intent to defraud the plan, is guilty of a Class 6 felony pursuant to A.R.S. § 38-793.</li> </ul>			
Member Signature		Date	
Employer HR/Payroll Manager Signature		Date	



## Working after Retirement Guidelines

These guidelines were developed to assist members, retirees and employers in understanding the ASRS laws and rules governing working after retirement.

In general, if an ASRS retiree works or agrees to work 20 or more hours per week for 20 or more weeks in a fiscal year (referred to below as 20/20) for an ASRS employer, the pension benefit will be suspended and active membership will resume. Under very specific conditions an ASRS retiree can qualify to remain retired while working for an ASRS employer. It is the responsibility of both the retiree and employer to ensure compliance.

ASRS participation is limited to positions covered by the Social Security 218 agreement.

A *Retiree Return to Work for an ASRS Employer* form must be completed upon beginning any post-retirement employment and again if work hours permanently change. This form can be found on the ASRS website under the Retirees tab and Working after Retirement link. The employer should forward a copy to the ASRS for review.

The following provides details on returning to work for an ASRS employer while retired under specific circumstances. Some common scenarios are offered for illustrative purposes. The Arizona Revised Statute that applies is also noted.

### Returning to Work with Reduced Hours (A.R.S. § 38-766)

Arizona law allows all retirees who have terminated employment to return to work less than 20/20 after retirement without a suspension of pension. However, a retiree's pension will be suspended if any of the following conditions are met:

- ❑ Member did not reduce hours below 20/20
- ❑ Member worked 20/20 prior to retirement then, after retirement but in the same fiscal year, agrees to or does work even one more 20-or-more-hour week
- ❑ Member worked some 20-or-more-hour weeks prior to retirement and then, after retirement but in the same fiscal year, agrees to or does work additional 20-or-more-hour weeks so that the total weeks of at least 20 hours worked before and after retirement equals or exceeds 20
- ❑ Member meets or exceeds 20/20 in any fiscal year after retirement without having attained normal retirement AND having been terminated from employment for at least 365 days

**Scenario 1:** A member retires with ASRS on January 1, having already worked 26 full-time weeks during the fiscal year. The member returns to work in April in a temporary position and works 20 or more hours that first week. The member's ASRS pension will be suspended because the member has already met the 20/20 criteria for membership in that fiscal year.

**Scenario 2:** A member retires with ASRS on September 7, already having worked 10 full-time weeks during the fiscal year. The member returns to work in January and works 9 weeks of 20 or more hours per week and 17 weeks of less than 20 hours in the remainder of the fiscal year. The member's pension will not be suspended because the member only worked 19 weeks of at least 20 hours in the fiscal year.

**Returning to Work after 365 Days (A.R.S. § 38-766.01)**

The 365-day criteria allows members who meet *all* of the following conditions to return to work full time without a suspension of pension:

- ❑ Member must have either retired at normal retirement age or at least reached normal retirement age prior to returning to work
- ❑ A termination of employment prior to retirement is required
- ❑ Member must wait 365 days from pre-retirement date of termination (not from retirement date) to return to work
- ❑ During the 365 day wait the member cannot meet 20/20 criteria for active membership:
  - If the member has already worked one or more weeks of 20 or more hours in the fiscal year before retirement, those weeks will count toward the 20/20 criteria
  - Member cannot work any 20-or-more-hour weeks in the same fiscal year after termination if already worked 20/20 before termination of employment
  - Member cannot take an ongoing job of 20 or more hours per week that starts before the 365 days have expired
- ❑ Member must sign a statement acknowledging all these conditions, including the understanding that there will be no further ASRS contributions, no LTD eligibility and no additional service credit. The *Retiree Return to Work for an ASRS Employer* form may be used for this purpose. The statement or form must be signed and filed with the employer within 30 days of returning to work.
- ❑ Members retired from being a certified teacher must return without tenure
- ❑ The decision to return to work without a suspension of pension is irrevocable for the remainder of the employment period

**Scenario 1:** A member at age 50 with 9 years of service elects to terminate employment and take early retirement. 365 days after termination he investigates whether he can return to work full-time without suspension of his pension. He is not eligible because he has not yet reached normal retirement age.

**Scenario 2:** A member at age 61 with 18 years of service elects to terminate employment and retire. 365 days after termination she investigates whether she can return to work full-time without suspension of pension. She is eligible because she is now at normal retirement. Her age plus service has reached 80 points, and she has also reached age 62 with at least 10 years of service. She has been terminated for 365 days and, as long as she meets the other requirements, she may return to work for an ASRS employer in a 20/20 position without suspending her pension and resuming active contributions.

### **Returning to Work and Participating in Another State Retirement Plan (A.R.S. § 38-727)**

If a member terminates employment and retires, the member may return to work in a 20/20 position without a suspension of pension benefits if that position satisfies all of the following:

- ❑ Results in a true change in position, job duties and job title from the position occupied by the member before ASRS retirement
- ❑ Does not require participation in the ASRS
- ❑ Either:
  - Requires participation in another state retirement system and the member makes those contributions unless coverage is waived by an individual eligible for the Elected Officials' Retirement Plan, or
  - Permits a member to participate in another state retirement system and the member makes that election

**Scenario 1:** A member terminates employment, retires with the ASRS, and goes to work within 365 days of termination for a different employer in a position that requires participation in the Corrections Officer Retirement Plan. The member's ASRS pension will not be suspended.

**Scenario 2:** A member, without terminating employment, attempts to retire with the ASRS by transferring into a new position with the same employer. The new position meets the 20/20 criteria for membership but requires participation in the Public Safety Personnel Retirement System. The member ceases making contributions to the ASRS but cannot retire from the ASRS since the member has not terminated employment.

### **Returning to Work as a Leased Employee (A.R.S. § 38-711) or an Independent Contractor**

Arizona law allows a member to terminate employment, retire from the ASRS and return immediately as a leased employee or an independent contractor without a suspension of pension. However, these individuals may be considered to be "employees" by the IRS, the Social Security Administration, or another governmental authority, and could face a suspension of pension if that determination were made.

**Scenario 1:** A member terminates employment, retires with the ASRS, and immediately returns to the same position but works for a third party leasing company and not directly for the ASRS employer. This member's pension may be suspended if it is determined the member is working as an "employee" for IRS or Social Security purposes.

**Scenario 2:** A member terminates employment, retires with the ASRS and then sets up a limited liability corporation. After six months the LLC leases the retiree to an ASRS employer as an "independent consultant." This member's pension could be suspended because the retiree might not satisfy the IRS definition of an

independent contractor. A member considering independent contracting should consult with his or her employer and the IRS before taking this step.

### **Retiring without Terminating Employment (A.R.S. § 38-764(I))**

Arizona law allows a member to retire, receive a pension and continue working without first terminating employment if *all* the following conditions are met:

- ❑ Member must have reached normal retirement on or before the date of retirement
- ❑ Member's work hours must be reduced below 20/20 after retirement. If the member has already worked one or more weeks of 20 or more hours in the fiscal year before retirement, those weeks will count toward the 20/20 criteria
- ❑ Member's employer must agree to the reduced work hours

**Scenario 1:** A 52-year-old member with 28 years of service decreases his hours with his ASRS employer to 15 per week and retires without terminating employment. 365 days after his retirement his ASRS employer offers him a 25 hour per week position. The member cannot accept the position without having his pension suspended because he has not been terminated from employment for more than 365 days.

**Scenario 2:** A member at normal retirement decreases his hours to 19 per week and retires from the ASRS without terminating employment. The member works 19 hours per week for two years then terminates his position. Fifteen months after terminating employment the member is offered a full-time position with an ASRS employer. The member can accept this position without a pension suspension since he is at least 365 days beyond his termination of employment, assuming the other requirements of A.R.S. § 38-766.01 are met.

### **Common Missteps and Pitfalls**

The following are common pitfalls the ASRS has identified that have led to revocations of benefits and penalties to retirees and employers.

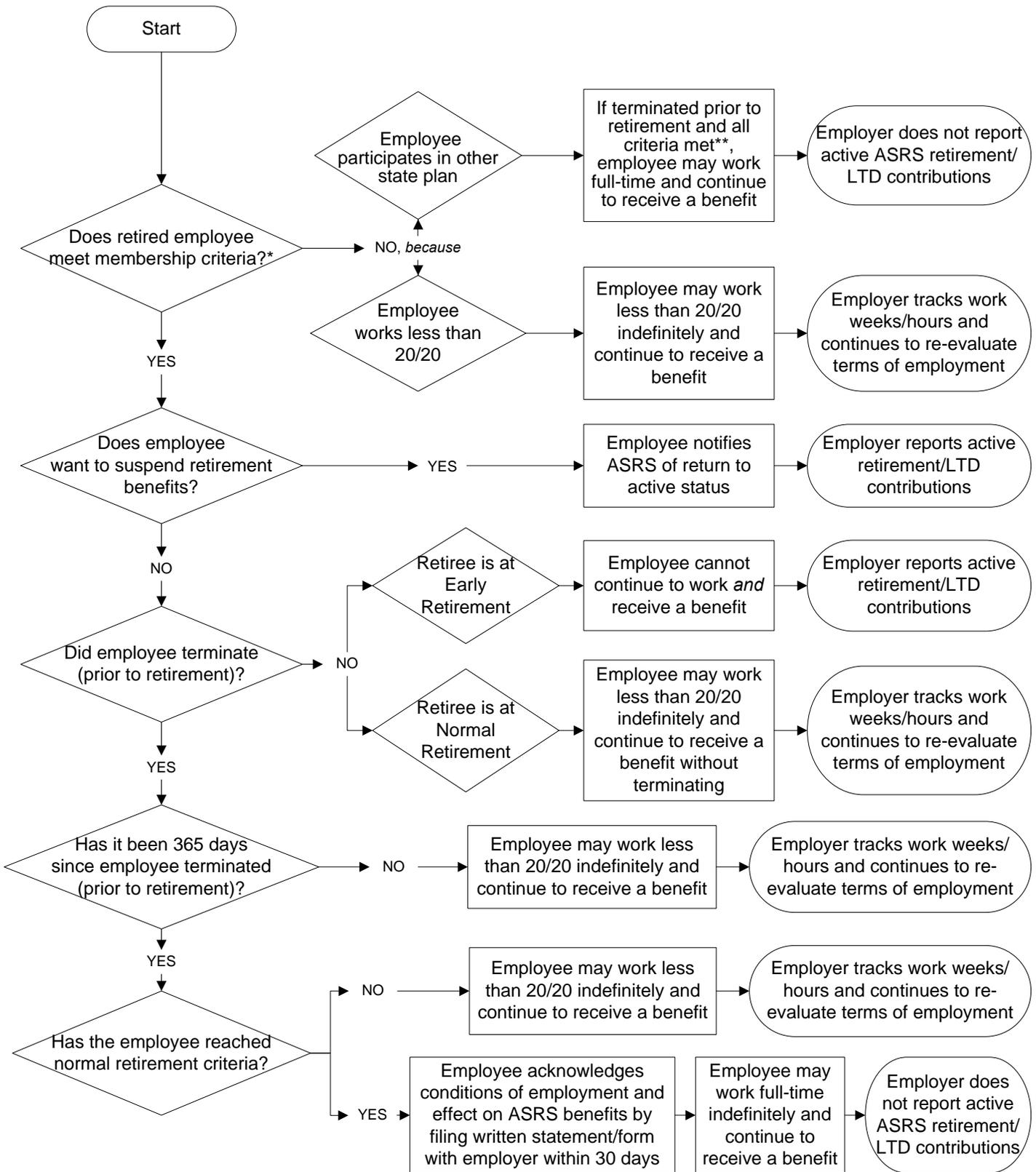
- ❑ **Returning to work before reaching normal retirement.** Many early retirees aren't aware that they cannot work in excess of 20/20 until they reach normal retirement, which could be as much as 15 years after early retirement.
- ❑ **Not waiting 365 days after pre-retirement termination before returning to work.** A retiree cannot return to 20/20 employment just because they have less than 20 weeks before reaching their 365 day anniversary of pre-retirement termination. The exemption from returning to active contributory status is at the 365 day anniversary of pre-retirement termination, not any date before.
- ❑ **Not strictly limiting the weeks of working 20 or more hours to less than 20.** Many retirees think they are working 20 or more hours only occasionally, and are very surprised when they discover that they exceeded the 19 week limit.

- ❑ **Not submitting a written acknowledgment.** One of the statutory requirements is a written acknowledgment, within 30 days, of the conditions under which a retiree is returning to work.
- ❑ **Relying on others' understanding rather than contacting ASRS directly.** The ASRS puts a great deal of effort into understanding and following state statutes and rules. Please review all the information on the ASRS website for a more detailed explanation. If you still have questions, contact us.

## Notes

# Working After Retirement and ASRS Benefit Status

Use in conjunction with Working After Retirement Guidelines at [www.azasrs.gov](http://www.azasrs.gov)



\*ASRS Membership Criteria: Employee must be in position covered for Social Security under a Section 218 Agreement AND be engaged to work for 20 or more weeks in a fiscal year for 20 or more hours per week.

\*\*A.R.S. § 38-727

# Chapter 5: COMPENSATION

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Generally, for the purposes of withholding ASRS contributions, compensation means the gross amount paid to a member by an employer as salary or wages for services rendered that are due and payable at or before termination of employment.

Employers must withhold and submit retirement contributions and long term disability (LTD) contributions, at the rates prescribed by the ASRS, from all eligible compensation paid to employees who meet the ASRS membership criteria. (A.R.S. §§ 38-735, 38-736, and 38-737) See Chapter 6: Contribution Reporting for details on responsibilities and procedures for submitting and reporting the amounts withheld.

## Payments Included in Compensation

For the purposes of determining retirement and LTD contributions, as provided in A.R.S. § 38-711(5) and (7), eligible compensation includes:

- ❑ Total regular salary or wages paid, including overtime, standby pay, on-call pay, hazardous duty pay, and any other payment for services rendered
- ❑ Final payments of regular salary and wages, as noted above, paid at the time of termination, including balance of contract payments
- ❑ Amounts paid to a member on administrative, sabbatical, vacation, annual, sick, personal leave, or other paid leave status
- ❑ Non-accountable reimbursements, which means payments made to reimburse the employee for costs incurred by the employee incidental to the employee's job and for which the employee is not required to provide proof of actual expenditures
- ❑ Mandatory amounts paid under an employer policy to reduce the member's accrued annual, sick or general leave balance to a prescribed maximum (if not paid because of a member's pending termination or retirement)
- ❑ Amounts paid for compensatory time or holiday pay (if not paid because of a member's pending termination or retirement)
- ❑ Amounts paid as awards, bonuses or incentives (if not paid because of a member's pending termination or retirement). Such payments may be in the form of a suggestion award, longevity pay, performance or merit award or other similar payments. Incentive payments, including educational Proposition 301 payments, are compensation if earned before termination, even if paid after termination.
- ❑ Amounts subject to deferred compensation under Section 457 of the Internal Revenue Code (IRC), tax-sheltered annuities under IRC Section 403 (b), the ASRS SRSP account 401(a), and IRC Section 125 cafeteria plans if election is made by the employee
- ❑ Amounts that would have been paid except for the member's election or a legal requirement that all or part of the pay be used for other purposes. Such

amounts would include wages withheld from the member's pay according to a tax levy, court order for child support, or other similar situation.

- Amounts paid in accordance with a court order or agreement that directs salary/wages to be paid for a specific period, including back pay awards, to resolve a grievance over an employee's termination, or an equal opportunity, discrimination, or other such dispute. **NOTE:** *Prior to withholding contributions on these types of amounts, please contact the Employer Relations Department for additional information.*

## Payments not Included in Compensation

Do not withhold retirement and LTD contributions, unless otherwise noted, from payment amounts that do not meet the definition of compensation. The ASRS will return contributions received on payments that do not meet the definition of compensation. The general definition of compensation excludes the following payments, pursuant to A.R.S. § 38-711(5) and (7):

- Termination payments (meaning any payments made as a result of termination of employment), whether made in a lump sum or in installments before, at, or after termination. This includes the payment of accrued vacation, annual, sick, compensatory or other leave balances, and any other form of pay designated as severance, special performance, stability, continuing service, longevity, or an incentive to terminate or retire, and other forms of pay that would not have been paid if the employee were not terminating. **NOTE:** *In determining whether a payment at termination is compensation for retirement purposes, you must consider the circumstances of the payment. If the payment is made to any employee who meets eligibility criteria for the payment regardless of termination status, the payment is subject to ASRS contributions. If the payment is made because the member is terminating employment and would not be made if the member did not terminate, the payment is not subject to ASRS contributions. (See Compensation for Pre-1984 Members in this chapter for an exception to this criteria)*
- Termination payments deferred under Section 457 of the Internal Revenue Code (IRC), tax-sheltered annuities under IRC Section 403(b), the ASRS SRSP account 401(a), and IRC Section 125 cafeteria plans
- A buy-out or contract payoff of an employee. Such payments are considered to be payments to forfeit a property right, and as such, do not constitute compensation.
- Payment, at the employee's option, in lieu of a fringe benefit. For example, if an employee can choose between "selling" back leave hours and retaining a benefit for the hours, the payment for the leave hours is not compensation.
- Accountable reimbursements, which means payment made to offset expenses incurred by the employee on behalf of the employer for which the employee must provide receipts or documentation to the employer
- Damages, costs, attorney fees, interest or other penalties paid pursuant to a court order or agreement to satisfy a grievance or claim, even though the amount of the payment may be based in whole or in part on previous salary or

wage levels. **NOTE:** Such payments may be compensation for retirement purposes if the court order or agreement directs salary or wages to be paid for a specific period. Prior to making the decision not to withhold contributions from these amounts, please contact the Employer Relations Department for additional information.

- ❑ Merit awards pursuant to A.R.S. § 38-613 and performance bonuses paid to assistant attorneys general pursuant to A.R.S. § 41-192
- ❑ The premium value for excess life insurance
- ❑ Amounts received as workers' compensation benefits. **NOTE:** Some employers supplement workers' compensation up to the amount of the member's regular pay by reducing the member's leave balances; amounts paid from the member's leave balance are compensation and subject to ASRS contributions. Other employers may permit the employee to sign over the workers' compensation benefit to the employer. The employer then continues to pay the employee the regular pay amount; only the portion of the payment exceeding the workers' compensation amount is compensation and subject to ASRS contributions.
- ❑ Amounts that exceed the maximum annual compensation limit as determined by A.R.S. § 38-746 and Internal Revenue Code Section 401(a)(17) (See Appendix C: Maximum Annual Compensation). **NOTE:** Retirement contributions are not withheld or submitted on any compensation that exceeds the annual limit. However, **LTD contributions are and should continue to be withheld on all amounts that exceed the annual limit.** (See Chapter 6: Contribution Reporting – Special Reporting Situations)

## Compensation for Pre-1984 Members

The determination of compensation may be different for employees whose ASRS membership began before January 1, 1984 (pre-1984 members). These members are entitled to the compensation provisions of the ASRS that existed when their membership began.

The definition of compensation prior to January 1, 1984 did not exclude lump-sum payments at termination and other payments for services that are specifically excluded in the current definition. At the pre-1984 member's option, such payments may be included in compensation for the purpose of calculating a retirement benefit.

A member is considered to be pre-1984 if:

- ❑ The member began working for an ASRS employer, met membership criteria, and contributed to the ASRS prior to January 1, 1984; and
- ❑ The member did not forfeit ASRS service for the prior membership by taking a return of contributions (refund), or
- ❑ The member reinstates any part of previously forfeited ASRS service performed before January 1, 1984 prior to retirement.

**NOTE:** *If assistance is needed in determining the member's eligibility, contact the Employer Relations Department.*

If a pre-1984 member chooses to have contributions withheld on termination payments, the member's monthly compensation for calculating the retirement benefit is an average of the highest consecutive 60 months of compensation (within the last 120 months of service) instead of an average of the highest 36 months (within the last 120 months of service and excluding termination pay). The 60-month average with the termination payment may provide a higher monthly retirement benefit. (See Chapter 8: Leaving Employment – Retirement Benefit Calculation)

If a pre-1984 member chooses to have termination payments included, withhold retirement contributions from termination payments; do not withhold LTD contributions from these payments. Do not withhold any contributions from termination payments made to employees who became members beginning in 1984. (See Chapter 6: Contribution Reporting – Special Reporting Situations)

**NOTE:** *A.R.S. § 38-615 does not allow county and state employees to use accrued sick leave payoffs in their retirement calculations. If the county or state employee is a pre-1984 member and contributions are submitted on termination pay, sick leave payouts should not be included.*

### **Termination Payments Made After Termination**

The Arizona Attorney General Opinion No. 101-004 (dated January 24, 2001) concluded that termination payments to pre-1984 members not owed until after termination could not be considered compensation for the purpose of calculating the retirement benefit. The ASRS applies the following rules to termination payments in order to comply with the statutes and the Attorney General Opinion:

- ❑ All payments made or legally payable to a member up to the date of termination or retirement are compensation and will be considered in the retirement benefit calculation
- ❑ Payments made after the date of termination or retirement and that were not legally payable at the date of termination or retirement are not compensation and will not be considered in the benefits calculation
- ❑ However, any payments for performance such as educational Proposition 301 monies, compact gaming monies or voluntary retirement incentive programs that are earned prior to termination are included as compensation, even if paid after termination, and will be considered in the benefits calculation.

## Employer Termination Incentive Programs

Per A.R.S. § 38-749, an employer must pay the ASRS for any unfunded liability caused by a termination incentive program offered by an employer that provides:

- ❑ A total increase in compensation of thirty percent or more that is given to a member in any one or more years before termination that are used to calculate the member's average monthly compensation if that increase in compensation is used to calculate the member's retirement benefit and that increase is not attributed to a promotion. **NOTE:** *To calculate the “increase in compensation of thirty percent or more,” include only those payments that are considered compensation for ASRS purposes. For example, do not include any termination payments for any employee who is not a pre-1984 member. (See Compensation for Pre-1984 Members in this chapter) Remember that increases in compensation that result from a promotion are not included in the calculation.*
- ❑ Anything of value (with limited exceptions), including any monies, credited service, or points that the employer provides to or on behalf of a member that is conditioned on the member's termination. **NOTE:** *When applying the “anything of value” test do not include payments made for accrued annual, sick or compensatory time unless the payment is enhanced beyond the employer’s customary payment as part of the termination incentive plan.*

Employer termination incentive programs may create an unfunded liability to the ASRS trust fund because:

- ❑ The member's monthly retirement benefit is increased by the termination incentive to a value above what has been paid in contributions; or
- ❑ The member retires sooner than the member otherwise would have, thereby receiving benefits for a greater number of years of service; or
- ❑ Both.

### Termination Incentive Programs and Continued Employment

If the member continues to work for the same employer after receiving payments for participating in a termination incentive program, the ASRS will generally conclude that the member has not terminated employment. The member may not be eligible to receive a retirement benefit or payment until the work is completed.

The treatment of incentive payments paid to a member who continues to work depends on whether the employer continues to pay the member regular pay for the work. Consider the following scenarios.

- ❑ Member receives only incentive payments. If the member receives only a portion of the incentive payments for the continued work, the ASRS considers the payment to be regular compensation for the work. The payment is subject to retirement and LTD contributions if ASRS membership criteria are met.

When the member terminates employment, the ASRS will consider any remaining amounts of incentive payments paid to the member to be termination pay, which are not included as ASRS compensation unless the member is a pre-1984 member. (See Compensation for Pre-1984 Members in this chapter)

- Member receives regular pay and incentive payments. If the member receives regular pay for continued work in addition to a portion of the incentive payments, the total of incentive payments will be treated as termination pay. The regular pay for the continued work will be treated as regular compensation and retirement and LTD contributions will be withheld. All payments made as part of the incentive program, whether paid in a lump sum or in installments before, at, or after termination, will be treated as termination payments, which are not included as ASRS compensation unless the member is a pre-1984 member. (See Compensation for Pre-1984 Members in this chapter)

## Special Compensation or Pay Plans

Some types of payments may initially appear to either meet or fail to meet the definition of compensation for ASRS purposes. However, when the payments are made in addition to or in place of the usual and customary employee pay schedule or policy, the payments may fall under a different category.

All relevant factors, conditions, and provisions must be considered to determine whether the payments are considered compensation. To avoid a later interpretation that may be detrimental to your employees, we strongly encourage you to forward a copy of any existing or proposed special compensation or pay plan to the Employer Relations Department for review. ASRS staff will review the plan to determine whether the payments made under the plan should be included as compensation for ASRS retirement purposes.

Examples of special compensation or pay plans include, but are not limited to:

- Employer termination incentive plans (See Employer Termination Incentive Programs in this chapter)
- Fringe benefit and reimbursement pay plans
- Severance, experience, and longevity pay plans
- Merit and performance or suggestion awards plans
- Accrued leave payoffs, settlements or legal decisions

If you have a plan that has already been reviewed by the ASRS but you have amended or changed any of the provisions, we recommend you refer it to the ASRS for another review to ensure that the previous determination is still valid.

## **Compensation for Military Call-Up**

An active member who is called up to active military duty may be eligible to receive up to 60 months of service credit for that period of military call-up. (A.R.S. § 38-745) The employer must pay both the member and employer contributions if the member returns to employment within a required timeframe after an honorable discharge or is hospitalized, becomes disabled, or dies while in service. The employer is required to submit contributions based on the compensation the member would have earned, along with any raises the member would have received, during the period of the call-up had the member not been called to active duty.

For more information about reporting compensation and contributions for military call up, see Chapter 6: Contribution Reporting – Special Reporting Situations – Military Call-Up.

If the employee passes away while on a call-up to active military duty, the Military Call-Up process must be completed before the survivor benefits can be determined. (See Chapter 9: Additional Benefits – Survivor Benefits)

## **Notes**

# Chapter 6:

## CONTRIBUTION REPORTING

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Arizona Revised Statutes §§ 38-735, 38-736, and 38-737 and the Arizona Administrative Code require employers to withhold contributions from all eligible compensation paid to members of the ASRS.

Employers must report and submit such contributions, along with corresponding employer contributions, in a manner prescribed by the ASRS Board of Trustees and for each period of employment for which members are compensated.

This section describes procedures for meeting those requirements. Questions about these procedures and other general questions regarding contribution reporting, correcting errors and making adjustments, the online web-based program, payroll deductions and other reporting specifications and requirements may be directed to the Contribution Accounting Department. (See Chapter 3: Employer Resources – Financial Services for contact information)

### Required Contributions

#### Contribution Rates

The ASRS sets separate contribution rates for the retirement and long term disability (LTD) programs. As prescribed by A.R.S. § 38-714, contribution rates are calculated by an actuary using actuarial methods and assumptions that are consistent with generally accepted actuarial principles and approved by the ASRS Board of Trustees. Future liabilities (based on the demographics of the ASRS members) are compared against projected assets (based on ASRS Board-approved earnings assumptions) to determine the contribution rates necessary to support future payments of retirement and LTD benefits.

Typically, the contribution rates will change every fiscal year. **The ASRS fiscal year begins July 1 and ends on June 30 of the following calendar year.** The ASRS Board of Trustees generally approves rates in mid-November that will take effect on the following July 1.

The ASRS will advise employers of the contribution rates for the next fiscal year each fall on the ASRS website. Generally in May, employers will also receive an email confirming the approved contribution rates and specifying fiscal year end procedures.

Historically, the total contribution rate is split equally between employees and employers. For the contribution rates that apply each fiscal year, see Appendix D: Historical Interest and Contribution Rates.

## Calculation and Tax Status of Contributions

To calculate each member's retirement contribution, multiply the member's eligible gross compensation by the applicable ASRS retirement contribution rate for the fiscal year. (See Appendix D: Historical Interest and Contribution Rates)

The retirement contribution is a "pre-tax" deduction from pay. The member's retirement contributions are considered "picked up" by the employer under section 414(h)(2) of the Internal Revenue Code, and therefore, are excluded from income tax. Subtract the member's retirement contribution withheld from gross pay before determining the member's federal and state income tax withholding. Do **not** reduce the Social Security (FICA) gross pay base by the amount of the member's retirement contribution.

To calculate each member's LTD contribution, multiply the member's gross compensation by the applicable ASRS LTD contribution rate for the fiscal year.

The LTD contribution is **not** a "pre-tax" deduction. Do **not** subtract the member's LTD contribution from gross pay before determining the member's federal and state income tax withholding or the Social Security tax (FICA).

## Contribution Reporting Requirements

### Reporting Period and Due Date

Each employer must certify on each payroll the amount of member and employer contributions and submit that amount to the ASRS on a due date prescribed by the ASRS Board of Trustees. (A.R.S. § 38-735)

Retirement and LTD contributions, as well as alternate contributions (ACR) for retired members who return to work, must be reported by "pay period ending" (PPE) date (i.e., the last day of the period that will be included in a payroll run). All reports and correspondence submitted to the ASRS should refer to specific payroll periods by the PPE date, not by the pay date.

The appropriate payment or remittance of employee and employer retirement and LTD contributions and the ACR are due and must be received by the ASRS no later than 14 calendar days after the applicable PPE date. Receipt is established by the deposit date on the Online Contribution Reporting System.

Contributions received by the ASRS more than 14 calendar days after the PPE date are considered delinquent and subject to the assessment of interest charges until received. Delinquent contribution payments will accrue interest at the

actuarial assumed rate of return (currently eight percent). Payments that are delinquent and due may be recovered by the ASRS by action against an employer in an appropriate jurisdiction or may be deducted from any other monies payable to the employer by the state. Employers must account for such recovered or deducted delinquent payments in accordance with applicable accounting and financial reporting standards. (A.R.S. § 38-735)

## Required Information

For a contribution report for a given PPE date to be considered complete, the ASRS must receive the following information:

- ❑ **Employer Identifying Information** – Employers report contributions under authorized identifying information. The ASRS assigns a four-digit "Reporting Unit" and a six-digit "Employer Number" to each employer. Employers should not report under any other or additional employer numbers without authorization from the ASRS. ***NOTE:** Include the appropriate identifying numbers on your contribution reports and any correspondence with the ASRS.*
- ❑ **Contribution Summary Report (CSR)** - The CSR summarizes the contribution amounts reported for a PPE date and provides a grand total to be paid or remitted.
- ❑ **Employee Detail** - The employer must provide the eligible gross compensation and the breakdown of contributions for each employee so that the ASRS can allocate the amounts and service credit to individual member accounts.
- ❑ **Payment** - Remit the total employee and employer amounts on both retirement and LTD contributions through the automated clearinghouse (ACH) and on one ACH transaction. The amount remitted on the ACH should equal the totals reported on the CSR. The ASRS cannot accept a cash payment. If you are unable to make a payment through the ACH, please contact the Contribution Accounting Department for instructions.

## Contribution Reporting Methods

Contributions are reported through the ASRS website. The Online Contribution Reporting System provides a safe, secure and efficient way to report and submit payroll contributions.

Retirement contributions may be reported by one of two methods:

- ❑ **File Upload** - for employers that have compatible data processing capabilities and payroll systems to provide the employee detail and contribution data in the format required by the ASRS. The employer's payroll system must be able to generate an electronic file to provide the required ASRS contribution reporting information. With this method, the employer uploads and submits a file that can then be processed by the ASRS.
- ❑ **ASRS Web-Based Reporting System** - for employers that do not have compatible data processing capabilities and payroll systems to generate the

employee detail and contribution data in the required format. With this method, the employer keys the contribution detail into a reporting program provided on the ASRS website. A guide to using the ASRS web-based system is available on the ASRS website for those who have user access.

### **Access to the ASRS Online Contribution Reporting System**

In order to access the ASRS Online Contribution Reporting System, each employer must identify a staff representative who will serve as the Employer Administrator for the secure employer area of the ASRS website. (See Chapter 3: Employer Resources - Employer Administrator for ASRS Online Applications) The Employer Administrator will designate an Online Contribution Manager, or primary user, to access the Online Contribution Reporting application and manage access for other users, such as assigning one or more of the following roles:

- Maintain CSR/Payroll – create, save and submit a CSR
- Maintain Payroll Payment – set up an ACH payment
- Maintain File Data – upload contribution files (File Upload method only)
- Maintain Alternate Contribution Reporting – upload ACR data file

To establish, verify, or change the Employer Administrator on file for your organization, contact the Employer Relations Department. Instructional videos for an Employer Administrator to register, login, and assign the Manager role are available on the ASRS website under the Interactive Center tab and Employer Tutorials link.

### **Online Contribution Reporting System Technical Assistance**

If you are unable to log in and you are not the Employer Administrator, contact the individual who is the Employer Administrator for your organization for assistance. If you are the Employer Administrator, contact the Employer Relations Department for assistance.

Do not use the internet browser back button while in the ASRS web-based program. This will create multiple CSRs.

If you are unable to submit an ACH, check the:

- Requested Deposit Date field – it should be in the MM-DD-YYYY format (use hyphens not slashes)
- Amount field – do not enter a dollar sign (\$) or comma (,) in that field

## Sample Online Contribution Summary Report

### ASRS Contribution Summary Report

This report summarizes your contributions for the pay period ending date listed.

Reporting Unit Name	ASRS Employer
Reporting Unit Number	0000
Last PPE Date Submitted	05/18/2012
Current PPE Date	06/01/2012
Employer Name	ASRS Employer
Employer Number	000000

#### CSR Details

Schools Only: Combine your Certified and Non-Certified totals under Plan.

Retirement Contributions				
	Gross Salary	EE contributions PLAN 11.13% SYSTEM 7.0%	ER contributions PLAN 9.87% SYSTEM 7.63%	Total contributions
PLAN	45859.37	5104.16	4526.34	9630.50
SYSTEM	0.00	0.00	0.00	0.00
<b>SUBTOTAL</b>	<b>\$45,859.37</b>	<b>\$5,104.16</b>	<b>\$4,526.34</b>	<b>\$9,630.50</b>
Adjustments	2550.00	510.00	20.00	530.00
Late Charges			<input type="text"/>	0.00
<b>TOTAL</b>	<b>\$48,409.37</b>	<b>\$5,614.16</b>	<b>\$4,546.34</b>	<b>\$10,160.50</b>

LTD Contributions				
	Gross Salary	EE contributions 0.26%	ER contributions 0.23%	Total contributions
PLAN	45859.37	119.24	105.48	224.72
SYSTEM	0.00	0.00	0.00	0.00
<b>SUBTOTAL</b>	<b>\$45,859.37</b>	<b>\$119.24</b>	<b>\$105.48</b>	<b>\$224.72</b>
Adjustments	2550.00	10.50	10.50	21.00
Late Charges				0.00
<b>TOTAL</b>	<b>\$48,409.37</b>	<b>\$129.74</b>	<b>\$115.98</b>	<b>\$245.72</b>

Service Purchase Deductions			
	EE Deductions	ER Deductions	Total Deductions
PLAN	130.00	0.00	130.00
SYSTEM		0.00	0.00
<b>SUBTOTAL</b>	<b>\$130.00</b>	<b>\$0.00</b>	<b>\$130.00</b>
Adjustments			0.00
Late Charges			
<b>TOTAL</b>	<b>\$130.00</b>	<b>\$0.00</b>	<b>\$130.00</b>

Total Credits	
Retirement Contributions	\$10,160.50
LTD Contributions	\$245.72
Service Purchase Deductions	\$130.00
<b>Grand Total</b>	<b>\$10,536.22</b>

[Return to Pay Period Summary page](#)

## Correcting Contribution Errors – Current Fiscal Year

It may be necessary to change contribution information previously reported in the current fiscal year to correct errors such as:

- ❑ **Amount Reported:** You may need to either increase or reduce compensation and contributions originally reported.
- ❑ **Contributions not Submitted or Withheld:** You may need to report a member's contributions for a prior pay period(s) that were not reported. For example, if the payroll system failed to withhold retirement contributions for a new employee for the first pay period, you should process an adjustment for that PPE date for that employee.
- ❑ **Contributions Reported in Error:** You may need to completely reverse contributions that should not have been submitted. For example, if the payroll system withheld retirement contributions on an employee who does not meet membership criteria, you should process an adjustment for all PPE dates in the current fiscal year for which the employee is not a member.

Corrections or adjustments must be made to the PPE date in which the error occurred. Because the compensation history and service credit information used to determine a member's retirement benefit are based on employer reports and submissions, contributions that are misreported may cause a misallocation of service credit and compensation to member accounts. The ASRS must be able to identify the periods requiring adjustment so that the credited service and compensation may be correctly allocated to the member's account.

### Adjustment Procedures

Corrections to a current pay period report after it has been prepared should be reflected on the file or the Maintain Employee screen and on the CSR prior to submission. If the changes are made before submission, no further correction should be necessary.

If an error is identified after the CSR has been submitted, an adjustment must be made in the same detail as other reported transactions. The process for making adjustments depends on the contribution reporting method.

**NOTE:** Do not use the adjustment process for correcting errors that occurred in PPE dates from a prior fiscal year. (See *Correcting Errors – Previous Fiscal Year* in this chapter)

## File Upload Users

To change information reported for a previous pay period or submission, use the Online Contribution Adjustment Template, which is available for download on the ASRS secure website by choosing Upload Contribution Detail File within the Pay Period Summary screen. (See sample below)

Enter a separate transaction line for each adjustment to show the following information:

- Employee SSN and name
- Incorrect compensation and contribution amounts previously reported
- Corrected compensation and contributions amounts
- Compensation and contributions not previously reported
- Compensation and contributions erroneously reported. Indicate a credit with a leading negative sign before the dollar amounts (ex. -\$50.00).
- PPE date in which the error occurred

The template will automatically calculate the total adjustments. Upload the adjustment file in the Upload Contribution Detail File screen.

## Sample Online Contribution Adjustment Template

SSN	Last Name	Middle Name	First Name	RET Gross Salary	RET EE Amount	RET ER Amount	LTD Gross Salary	LTD EE Amount	LTD ER Amount	Pay Period to Adjust
000-00-0000	Brown		Mary	-\$2,500.00	-\$556.50	-\$493.50	-\$2,500.00	-\$13.00	-\$11.50	7/30/2011
000-00-0000	Brown		Mary	\$2,500.00	\$278.25	\$246.75	\$2,500.00	\$6.50	\$5.75	7/30/2011
000-00-0000	Brown		Mary	\$2,500.00	\$278.25	\$246.75	\$2,500.00	\$6.50	\$5.75	8/13/2011
000-00-0000	Smith		George	\$882.00	\$98.17	\$87.05	\$882.00	\$2.29	\$2.03	8/13/2011
000-00-0000	Johnson		Robert	-\$357.44	-\$39.78	-\$35.28	-\$357.44	-\$0.93	-\$0.82	8/13/2011

Total Adjustments	
RET Salary	\$3,024.56
RET EE	\$58.39
RET ER	\$51.77
LTD Salary	\$3,024.56
LTD EE	\$1.36
LTD ER	\$1.21

Validation Successful

You must indicate "Adjustment" in the Content of the "File Upload Information" section. (See sample below)

## Sample File Upload Report

### File Upload Report

Upload the file you want to send us.

#### CSR Information

<b>PPE Date</b>	08/13/2011
<b>Reporting Unit Number</b>	0000
<b>Retirement Contributions</b>	\$42,000.00
<b>LTD Contributions</b>	\$980.00
<b>Service Purchase Deductions</b>	\$0.00
<b>Grand Total</b>	<b>\$42,980.00</b>

#### File Upload Information

Attn: New adjustment template is available for download.

<b>File Name</b>	desktop\08132011adj.xls <input type="button" value="Browse..."/>
<b>Content</b>	<input type="checkbox"/> Contribution <input type="checkbox"/> LTD <input type="checkbox"/> Service Purchase <input checked="" type="checkbox"/> Adjustment
<b>Comments</b>	<input type="text" value="This is an adjustment to 3 EEs for 8/13/11 PPE."/> (Please limit the comments to a maximum of 250 characters) 203 characters left
<input type="button" value="Upload File"/>	

### ASRS Web-based Reporting System Users

To change information reported for a previous pay period, on the Pay Period Summary screen, find the row of the corresponding pay period. Choose Edit Adjustments under the Available Operations heading on that row.

Select the employee on which the adjustment will be made and enter the information on the Adjustment Entry screen. (See sample below)

## Sample Web-based Reporting System Report

### Adjustment Entry

---

Adjustment included within PPE Date 07/30/2011

Please verify the Name and SSN of the Employee for whom an adjustment is made:

<b>Name</b>	Joe Brown
<b>SSN</b>	000-00-0000

Employee Pay Type 01: Regular Compensation

[More](#)

Please enter the adjustment below:

<b>Adjusting PPE Date *</b>	<input type="text" value="07/30/2011"/>	(MM-DD-YYYY)
<b>PPE Gross *</b>	<input type="text" value="2500.00"/>	
<b>Employee Contribution Amount *</b>	<input type="text" value="278.25"/>	
<b>Employer Contribution Amount *</b>	<input type="text" value="246.75"/>	
<b>LTD Employee Contribution *</b>	<input type="text" value="6.50"/>	
<b>LTD Employer Contribution *</b>	<input type="text" value="5.75"/>	
<b>Comments</b>		
<input type="text" value="Adding contributions not previously reported"/>		

Fields marked with asterisk (\*) are required.

[Return to Pay Period Summary page](#)

### All Users

After completing the adjustment screens, update the CSR of the current PPE date to include the adjustment amounts and any late charges amounts in the appropriate fields. Then submit the CSR.

When adjustments are entered on the CSR, the total net contributions due for the current PPE date will be automatically calculated to reflect any additional

contributions due to the ASRS (for previously omitted amounts) or any contributions for which the employer receives a credit (for overpayments of contributions previously submitted in error). Remit the appropriate contributions via ACH. The amount remitted on the ACH should equal the totals reported on the CSR.

## **Correcting Contribution Errors – Previous Fiscal Year**

Minor adjustments that merely change a dollar amount previously reported, either to partially increase or reduce contributions, may be reported as indicated for current fiscal year corrections. You must clearly indicate the PPE date and the fiscal year to which the adjustment applies.

**NOTE:** Do not report prior year adjustments as part of or with a regular contribution report without ASRS authorization.

Major adjustments that report contributions erroneously omitted for a member or that entirely delete contributions erroneously submitted for a member in a prior fiscal year must be reported to the Employer Relations or Contribution Accounting Department.

### **Contributions Submitted in Error**

If contributions have been withheld and reported in error for a prior fiscal year on behalf of an employee whose employment did not meet membership criteria, the error must be corrected. Generally, you may take a credit for any overpayment of contributions against a current contribution report after advising the ASRS and receiving instructions from the Contribution Accounting Department. You may request and receive a payment from the ASRS for the amount only if the overpayment occurred within the previous 12 months. (A.R.S. § 38-738 (A))

The ASRS will only credit or reimburse the employer. The employer should reimburse the employee through payroll adjustment procedures for the employee amounts reported to the ASRS in error. Do not have the employee request a withdrawal of contributions or refund from the ASRS. A refund to the employee does not return the employer contributions to the employer and the employee cannot request a refund of their ASRS account unless they have terminated employment with all ASRS employers.

Employers cannot take a credit for a member who has terminated employment and who has requested and received a refund of all contributions from the ASRS. After the member has refunded, the ASRS no longer has an account against which to process an adjustment.

If the ASRS makes a determination that contributions were withheld and reported for an ineligible person, we will advise you how to recover the erroneous contributions, when applicable. As this error is corrected, the member's account

and service credit may be reduced. Pursuant to A.R.S. § 38-748, in a case where contributions have been submitted for an ineligible person and it is determined that the ASRS is legally obligated to provide a benefit, the employer will be required to pay any resulting unfunded liability to the ASRS trust fund.

### **Contributions Not Withheld**

An ASRS employer may inadvertently fail to enroll and submit contributions for an eligible member for participation in the ASRS at the time the member became eligible. This is called a Contributions Not Withheld (CNW) error.

A CNW error may be discovered by the employer, the member or through an ASRS audit. In any case, the error must be corrected if it occurred within the last fifteen years. The employer is responsible for submitting and reporting required contributions that were due for an employee who met membership criteria even if the member has already terminated employment.

**CNW errors are *not* corrected using the Online Contribution Reporting System.** To assist employers in reporting eligible compensation that was earned and the PPE date in which it was earned, the ASRS has created the *Verification of Contributions Not Withheld* form. (See sample in this chapter) The employer may also choose to provide the information in an alternate format, such as a spreadsheet or payroll report, as long as it includes all information requested on the form.

Upon receipt of the CNW information, an audit of the member's account will be completed, and:

- The ASRS will issue an invoice to the employer for the amount of the employer contributions due plus any interest. The employer is required by law to pay the monies due within 90 days of the invoice. Amounts not received within 90 days are considered delinquent and subject to the assessment of additional interest charges or recovery actions by the ASRS, if applicable.
- The ASRS will issue an invoice, along with payment options, to the member for the amount of the member contributions due. The member is required to make payment within 90 days after the employer has paid the employer amount. If the member waits beyond the due date to make payment, the member will pay the interest due on the remaining monies owed. (A.R.S. § 38-738(B)(1)).

**NOTE:** *The payment options for a member to pay for a CNW are similar to those provided for service purchase. However, for an error that corrects only compensation history and not service credit history, the member may not elect to use a PDA. (See Chapter 7: Purchase of Service Credit – Service Purchase Payment Options)*

When both the employer and employee contributions are received, the member's account will be adjusted to reflect the compensation history and service credit.

### Evidence of CNW

In some cases, the employer will not have records for the time in question. The initiator of the CNW is responsible for providing credible evidence of past employment and compensation amounts. (A.R.S. § 38-738(B)(4)) Below are documents the employee can provide to the employer to support the CNW request:

Documents proving member was employed and covered under Section 218 agreement	Documents proving member met time and hours requirements	Documents verifying member's compensation
Pay Stubs	Pay Stubs	Pay Stubs
W-2s	Contract with W-2s	W-2s
Employer Verification	Employer Verification	Employer Verification
Personnel Action Form	Payroll Records	
Social Security Earnings Report	Timesheets	

If the employer does not have records and the member is unable to provide sufficient documentation to prove the member's eligibility for a CNW adjustment, the member may choose from one of the following options:

- ❑ Purchase the time as Other Public Service Non-Participatory, in accordance with established eligibility requirements. The member should contact the ASRS Member Services Division for instructions.
- ❑ Present to the ASRS all of the documentation provided to the employer, along with the employer's response. The ASRS will review the documents and determine eligibility.

**NOTE:** *If the CNW occurred more than fifteen years before the CNW information is provided to ASRS, the CNW is considered public service credit and may be purchased by the member. The employer would not be issued an invoice for CNW.*

## Notes

## Sample Verification of Contributions Not Withheld form

*This form should be completed by the payroll or human resources manager. Please print.*



**ARIZONA STATE RETIREMENT SYSTEM (ASRS)**  
**VERIFICATION OF CONTRIBUTIONS NOT**  
**WITHHELD (CNW) EMPLOYER USE ONLY**

PLEASE PRINT  
 COMPLETE AND SEND  
 TO: ASRS - Member Services  
 PO Box 33910  
 Phoenix, AZ 85067-3910

Phoenix (602) 240-2000  
 Tucson (520) 239-3100  
 Toll-Free (800) 621-3778  
 TTY (602) 240-5333  
 Fax (602) 240-2090  
 www.azasrs.gov

Disclosure of member's Social Security number is mandated by Section 6109 of the Internal Revenue Code. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account to inform the Internal Revenue Service about distributions and withholdings with respect to the individual's account.

**SECTION 1 – Member Information**

Social Security Number <i>000-00-0000</i>	Member Name (Last) <i>Jones</i>	(First) <i>John</i>	(Middle Initial) <i>J.</i>
Position Title at Time of Claim <i>Operations Technician</i>	Status of Position (i.e. permanent, seasonal, etc.) <i>seasonal</i>	Other Names Used <i>(e.g., maiden name)</i>	
Do you have records available for this employee? <i>Please check</i> <input type="checkbox"/> Yes <input type="checkbox"/> No		Was position covered by Social Security 218 Agreement? <i>Please check</i> <input type="checkbox"/> Yes <input type="checkbox"/> No	

**SECTION 2 – Statements of Understanding and Agreement**

By my signature below, I certify that I understand and agree to the following:

- It is my responsibility to verify the accuracy of the information I am providing below.
- Any person who knowingly makes any false statement, or who falsifies or permits to be falsified any record of the retirement plan with an intent to defraud the plan, is guilty of a Class 6 felony pursuant to Arizona Revised Statutes § 38-793.
- By completing the charts below, the employer will receive an invoice for the contributions owed during the time listed as well as the accumulated interest on the CNW for both the member and employer contributions. The member will receive an invoice for contributions owed.

**SECTION 3 – Fiscal Year, Gross Salary and Pay Period Listing** - Please list each fiscal year separately. Fiscal years run July 1 – June 30. List only CNW eligible gross salary and pay periods and not the entire employment history.

Fiscal Year (ex. 2002-03)	Gross Salary							
<i>1999 - 2000</i>	<i>\$22,060</i>							
Pay Period Ending	Gross Salary	Hours Worked	Pay Period Ending	Gross Salary	Hours Worked	Pay Period Ending	Gross Salary	Hours Worked
<i>8/14/99</i>	<i>\$1,713.40</i>	<i>40</i>	<i>2/19/00</i>	<i>\$1,070.87</i>	<i>25</i>			
<i>8/28/99</i>	<i>\$1,713.40</i>	<i>40</i>	<i>3/5/00</i>	<i>\$1,070.87</i>	<i>25</i>			
<i>9/11/99</i>	<i>\$1,499.22</i>	<i>35</i>	<i>3/19/00</i>	<i>\$1,070.87</i>	<i>25</i>			
<i>9/25/99</i>	<i>\$1,499.22</i>	<i>35</i>	<i>4/2/00</i>	<i>\$1,070.87</i>	<i>25</i>			
<i>10/9/99</i>	<i>\$1,070.87</i>	<i>25</i>	<i>4/16/00</i>	<i>\$856.70</i>	<i>20</i>			
<i>10/23/99</i>	<i>\$1,070.87</i>	<i>25</i>	<i>4/30/00</i>	<i>\$1,070.87</i>	<i>25</i>			
<i>12/4/99</i>	<i>\$856.70</i>	<i>20</i>	<i>5/14/00</i>	<i>\$1,070.87</i>	<i>25</i>			
<i>12/18/99</i>	<i>\$1,070.87</i>	<i>25</i>	<i>5/28/00</i>	<i>\$856.70</i>	<i>20</i>			
<i>1/22/00</i>	<i>\$856.70</i>	<i>20</i>	<i>6/11/00</i>	<i>\$856.70</i>	<i>20</i>	Additional pay periods listed on page two? <input type="checkbox"/> Yes <input type="checkbox"/> No <i>Please check</i>		
<i>2/5/00</i>	<i>\$856.70</i>	<i>20</i>	<i>6/25/00</i>	<i>\$856.70</i>	<i>20</i>			

**SECTION 4 – Employer Information and Signature of Authorized Payroll or HR Manager**

Employer Name <i>Organization Name</i>	Phone Number <i>(602) 555-5555</i>
Name of Authorized Payroll or HR Manager (Please print.) <i>Susan Smith</i>	Title <i>Payroll and Benefits Manager</i>
Signature of Authorized Payroll or HR Manager <i>Susan S. Smith</i>	Date <i>TODAY'S DATE</i>



## Special Reporting Situations

### Fiscal Year End Procedures

The ASRS fiscal year ends on June 30 of each year. In any year, all pay periods ending on or before June 30 must be reported by July 14. This is necessary so that the ASRS may complete posting of the reports to member retirement accounts in a timely manner as part of year-end closing procedures.

Reports for pay periods that end after June 30 should be reported in the new fiscal year at the contribution rates for that year. For example, for a pay period that ends July 6, 2012, report contributions for the entire pay period at the rate for the new fiscal year (FY 2012-2013), even though part of the pay period falls in the prior fiscal year (FY 2011-2012). **Do not split the pay period** as of June 30, reporting part at the rate for the ending fiscal year and part at the rate for the new fiscal year.

### Balance of Contract Payments

Some ASRS employers pay employees on a contract basis. A contract employee may elect to defer receipt of contract payments due until a later date. Payments to a member after the end of the contract period are called “balance of contract” payments.

Since monies are paid in connection with work performed during a specific period, the payments are considered due and payable to the member at the end of the contract period. Retirement and LTD contributions on balance of contract compensation must be reported in the fiscal year during which the service (the contract) is performed and at the contribution rate for that fiscal year.

This provision applies whether such payments are paid in a lump sum or distributed over a period of time after the completion of the contract. The PPE date for reporting the contributions may be the last day of the contract period, the last day of the fiscal year (June 30), or other dates to report separate pay periods for each payment, as long as the dates precede and are reported at the rates for that fiscal year.

The balance of contract payments to university contract personnel are often paid on a 12-month basis coinciding with the fiscal year. Payments made in this manner may be reported as they are paid, unless the member retires. In that event, report remaining balance of contract contributions at the time of termination.

### Performance Pay or Bonus Plans

Some school districts have performance pay and bonus plans in which members receive performance awards (frequently funded under Proposition 301 monies), which are based on performance during the school year but are not determined until after the school year has ended.

Such payments are considered part of the pay for the prior school year and, therefore, are compensation for the purposes of ASRS contributions, even if paid after termination (including retirement). Since the monies are being paid to members in connection with work performed during a specific fiscal year, the retirement and LTD contributions must be reported in that fiscal year.

The last possible fiscal year PPE date is June 30. Therefore, all contributions on performance pay monies will be due to the ASRS no later than July 14 or they will be considered delinquent. (See Reporting Period and Due Dates in this chapter)

If contributions on performance monies are received, along with the supporting employee detail, on or before July 14, the contributions will be considered timely and the contribution rate will be the rate in effect in the fiscal year the monies were earned. If the payments and the employee detail information are not provided until after July 14, the contribution rate will be the rate in effect as of the new fiscal year, and interest will be due on those contributions received after July 14.

In a few cases, the employer may not yet have determined the amount to be paid to each member. If an employer knows the amount or approximate amount of the total performance pay awards that will be paid to members and wants to avoid interest, the employer should compute the contributions that will be due, based on the contribution rate for the year the monies are earned, and pay the contributions to the ASRS on or before July 14. If the payment is made before July 14 and the employee detail information is later submitted and results in an overpayment or underpayment, adjustments will be made accordingly (and may include interest).

If:	And:	Then:	And:
Contributions Received	Employee Detail Received	Contribution Rate to Pay	Interest Due
Before July 14	Before July 14	FY in which money earned	No
After July 14	After July 14	FY in which contributions submitted	Yes
Before July 14	After July 14	FY in which money earned	No
After July 14	Before July 14	FY in which contributions submitted	Yes

### **Military Call-Up**

If a member is called up to active duty military service, the employer should continue to withhold and report member and employer contributions for payments of paid leave made to the member for each regular PPE date contribution report processed through the Online Contribution Reporting System. Paid leave is eligible compensation and contributions must be withheld when payments are made. (See Chapter 5: Compensation – Payments Included in Compensation) If the member is not receiving pay for paid leave during the period of the call-up, the

employer should not send any contributions to ASRS for that member during the period of the call-up.

If the member returns, and upon meeting other eligibility requirements, the employer is required to pay both the employer and employee retirement contributions based on the compensation the member would have earned, along with any raises the member would have received, during the period of the call-up. (A.R.S. § 38-745) (See Chapter 5: Compensation – Compensation for Military Call-up)

**NOTES:** Do **not** use the Online Contribution Reporting System or the adjustment process for submitting Military Call-Up contributions. The ASRS must calculate the eligible contributions and service credit in accordance with statute.

To assist employers in reporting compensation that would have been earned, the ASRS has created a *Military Call-Up* form. (See sample form in this chapter) The employer is required to complete the form and send all required documentation, such as the DD-214, military orders, or any other official military records, to the ASRS within 90 days of the employee returning to work.

Upon receipt, an audit of the member's account will be completed.

- ❑ If contributions were withheld and submitted during the time frame, both the retirement and LTD contributions will be returned to the employer. The ASRS will only credit or reimburse the employer. The employer should reimburse the employee through payroll adjustment procedures for the amounts reported to the ASRS and returned.
- ❑ The amount of member and employer retirement contributions will be calculated, based on the reported compensation, and in accordance with statute. **NOTE:** *The requirement for employers to pay employee and employer contributions for an eligible call-up period does not apply to contributions for the LTD program. The amount due will reflect only the the cost of retirement contributions.*
- ❑ A cost invoice will be sent to the employer. The employer has 30 calendar days from the date of the invoice to submit the retirement contributions.

## Notes

# Sample Military Call-Up form



**ARIZONA STATE RETIREMENT SYSTEM (ASRS)**  
**MILITARY CALL-UP**  
**EMPLOYER USE ONLY**

PLEASE PRINT

COMPLETE AND SEND TO:  
 ASRS - Member Services  
 PO Box 33910  
 Phoenix, AZ 85067-3910

Phoenix (602) 240-2000  
 Tucson (520) 239-3100  
 Toll-Free (800) 621-3778  
 Fax (602) 240-5340  
 www.azasrs.gov

Disclosure of your Social Security number is mandated by Section 6109 of the Internal Revenue Code. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account to inform the Internal Revenue Service of distributions and withholdings with respect to the individual's account.

SECTION 1 – Member Information			
Social Security Number <b>999-99-9999</b>	Member Name (Last) <b>Smith</b>	(First) <b>John</b>	(Middle Initial) <b>Q.</b>

SECTION 2 – Military Service Due to Military Call-Up		
Start Date of Call-Up Service: (MM/DD/YYYY) <b>06/13/2011</b>	Did the member receive paid leave or differential wage payments during this time? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
End Date of Call-Up Service: (MM/DD/YYYY) <b>12/16/2011</b>	Returned to Work Date: (MM/DD/YYYY) <b>12/19/2011</b>	DD-214 or equivalent attached? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

SECTION 3 – Fiscal Year, Gross Salary and Pay Period Listing					
Fiscal Year (ex. 2002-03) <b>2011 - 2012</b>	Gross Salary <b>\$19,136.53</b>	Note: Salaries indicated below must include any pay increases that would have been earned during the call up period.			
Pay Period Ending	Gross Salary	Pay Period Ending	Gross Salary	Pay Period Ending	Gross Salary
<b>06/24/2011</b>	<b>\$1385.61</b>	<b>11/11/2011</b>	<b>\$1423.07</b>		
<b>07/08/2011</b>	<b>\$1385.61</b>	<b>11/25/2011</b>	<b>\$1423.07</b>		
<b>07/22/2011</b>	<b>\$1423.07</b>	<b>12/09/2011</b>	<b>\$1423.07</b>		
<b>08/05/2011</b>	<b>\$1423.07</b>	<b>12/23/2011</b>	<b>\$711.54</b>		
<b>08/19/2011</b>	<b>\$1423.07</b>				
<b>09/02/2011</b>	<b>\$1423.07</b>				
<b>09/16/2011</b>	<b>\$1423.07</b>				
<b>09/30/2011</b>	<b>\$1423.07</b>				
<b>10/14/2011</b>	<b>\$1423.07</b>				
<b>10/28/2011</b>	<b>\$1423.07</b>				
					Have you listed additional pay periods listed on page two? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

SECTION 4 – Employer Information			
Employer Name <b>Arizona Public Employer</b>			
Employer Address <b>782 Main Rd</b>		City <b>Big City</b>	ZIP <b>88888</b>
Employer Contact Name <b>Janet Jones</b>		Employer Telephone Number <b>(602) 755-5555</b>	Employer Fax Number <b>(602) 755-5557</b>
Employer Contact Signature <b>Janet Jones</b>			Date

\* DD-214 OR EQUIVALENT IS REQUIRED FOR MILITARY CALL-UP TO BE PROCESSED

Service Purchase - Military Call-up

Page 1 of 2

Revised: 07/28/11



## Maximum Annual Compensation

A.R.S. § 38-746 and Internal Revenue Code Section 401(a)(17) limit the amount of annual compensation for which retirement contributions can be paid. You must stop withholding retirement contributions from compensation when a member's compensation for the year exceeds the maximum. (See Appendix C: Maximum Annual Compensation)

To ensure that a member whose compensation exceeds the annual maximum receives full service credit for the year, you must advise the ASRS Contribution Accounting Department before the end of the fiscal year that contribution withholding ceased because the member's compensation reached the maximum and provide the following information:

- ❑ The last pay period for which contributions were reported for the member
- ❑ Any pay periods not worked after the last pay period for which contributions were reported
- ❑ The last date worked in the fiscal year
- ❑ The total compensation from which contributions were deducted
- ❑ The total compensation paid to the member in the fiscal year

**NOTE:** *The compensation limitation does not apply to contributions for the LTD program; LTD contributions should continue to be withheld on all amounts that exceed the annual limit.*

## Legal Actions

If you are making payments to a member, whether a current or previously terminated employee, in accordance with a court order, settlement agreement or other legal action, contact the Employer Relations Department to determine whether the payments meet the definition of compensation and to receive contribution reporting instructions.

## Payments Made to a Terminating Employee

Generally, payments that meet the definition of compensation and are payments that would be made even if the employee were not terminating should be reported as part of the regular contribution report. (See Chapter 5: Compensation) For example:

- ❑ Final Payment of Regular Salary and Wages - withhold retirement and LTD contributions at termination, just as you would for any other regular compensation.
- ❑ Performance Payments - withhold retirement and LTD contributions from performance or bonus plan payments to members after termination, including retirement, just as you would for non-terminating members. (See Performance Pay or Bonus Plans in this chapter)

Do not withhold retirement or LTD contributions from any payments that do not meet the definition of compensation.

Withhold retirement contributions from termination payments that meet the definition of compensation for pre-1984 members if the member chooses to have termination payments included. (See Chapter 5: Compensation – Compensation for Pre-1984 Members) Report eligible amounts with your regular contribution report.

***NOTE: LTD contributions are not deducted from termination payments for pre-1984 members. Because the LTD program was established after that date, the exception for withholding contributions does not apply to LTD.***

Contributions on all payments to a terminating employee that are considered compensation must be submitted timely, whether paid in a lump sum or installments before, at, or after termination. Report the contributions due for the termination payments at the time of the termination in the same fiscal year at the contribution rate for that fiscal year and by the required due dates. (See Reporting Periods and Due Dates and Performance Pay or Bonus Plans in this chapter)

## **Reporting Rehired ASRS Retirees**

### **Alternate Contributions**

A.R.S. § 38-766.02 requires an employer to pay contributions at an alternate rate (ACR) on behalf of all ASRS retired members who return to work in any capacity with that ASRS employer. (See Chapter 4: Membership – Maintaining Retired Member Status and Working After Retirement Guidelines)

The ACR must be paid for all employees who are retired from the ASRS and who are in a position ordinarily filled by an employee of the ASRS employer. Generally, this includes all ASRS retirees who maintain a retired status with the ASRS and who perform work in any capacity, regardless of:

- Whether they are considered a direct hire, contractor, or leased employee
- The number of hours or weeks they work
- Their participation in another retirement system

The ACR is determined each fiscal year by an actuary, as approved by the ASRS Board of Trustees. To calculate the required contributions for each retired member, multiply the compensation, gross salary, or contract fees paid to the employee by the applicable ACR for the fiscal year. (See Appendix D: Historical Interest and Contribution Rates) The ACR is paid only by the employer. There are no employee contributions.

Alternate contributions for rehired ASRS retirees are reported for each PPE, along with your regular contribution report, using a secure online process. Detailed instructions for submitting ACR reports and payments can be found in the *Alternate Contribution Rate Reporting – Employer User Guide*, which is available on the ASRS website under the Employers tab.

## Return to Work Violations

Return to work violations occur when an ASRS retiree meets ASRS membership criteria and does not resume active membership. A.R.S. § 38-766(G) requires an employer to pay an ACR for a retired member whose pension is subject to suspension. (See Chapter 4: Membership – Return to Work Violations) The ACR for non-compliance with ASRS statutes must be applied to the retiree's compensation and paid for the period starting with the date the member began working after retirement through the earlier of the date:

- ❑ The retiree terminates employment
  - ❑ The retiree resumes active membership, or
  - ❑ The employer begins paying an ACR pursuant to A.R.S. § 38-766.02 (see above)
- NOTE:** *An employer may already be reporting and submitting ACR payments for the retiree as of the date the member began working after retirement. If this is the case, no additional ACR or alternate contributions are required for the return to work violation.*

The ASRS will review all information and reports regarding retirees who are working after retirement to identify possible violations. When a violation is discovered, the ASRS will send the employer information and instructions for submitting any required payments.

## Waiting Period for State Employees

Some state employees are subject to a 26-week waiting period before they become eligible to participate in the retirement plan and LTD program. (See Chapter 4: Membership – When Membership Begins) These state employees become members on the 27<sup>th</sup> week of employment if membership criteria are met.

If the 27<sup>th</sup> week falls in the middle of a pay period, **do not split the pay period.** Retirement and LTD contributions begin as of the first day of the first full pay period following the 183<sup>rd</sup> day of employment.

## Correcting Demographic Errors

### Social Security Number Correction

If the Social Security number (SSN) on the member's ASRS account is correct and your payroll report is incorrect:

- ❑ Change your payroll to reflect the correct SSN
- ❑ When submitting a contribution report containing a change, advise the ASRS that a change has been made



## Reporting Payroll Deductions for Service Purchase

Chapter 7 – Purchase of Service Credit in this manual outlines the various opportunities ASRS members have to purchase additional service credit toward retirement. As an alternative to a lump sum payment for the purchase, members may elect to participate in the ASRS payroll deduction program.

A.R.S. § 38-747 requires employers, at the request of an employee, to deduct amounts from the employee's pay for ASRS service purchases. The terms of the agreement between the member and the ASRS are recorded on a contract called the *Payroll Deduction Authorization* (PDA). The ASRS will notify the employer when an employee has entered into a payroll deduction agreement with the ASRS and will outline the terms of the agreement. (See sample in this chapter)

The irrevocable PDA is approved by the Internal Revenue Service as a salary reduction agreement that reduces the participating employee's taxable income by the amount of the payroll deduction authorized under the agreement. Failure to comply strictly with the terms of the agreement could cause the ASRS to lose its tax qualification status and result in severe tax consequences for both employer and employee members of the ASRS.

The PDA specifies the number of payroll periods that the deductions will be made. For the purposes of making a service purchase deduction, a “payroll period” is considered a period of service for which the employer ordinarily makes a payment of wages to employees. In some cases, an employer may make payments outside of the regular period of service. For example, the employer may make payments to pay out leave benefits, termination or performance monies, or some other irregular payment. Do not submit a deduction for service purchase with any contributions on these irregular payments.

Payroll deductions for service purchases are reported in the same manner and at the same time as retirement and LTD contributions. Fields for service purchase deductions are included on the CSR.

For **File Upload** users, your payroll system will determine where the service purchase detail is entered for each employee. For **ASRS Web-based Reporting System** users, enter the service purchase detail on the appropriate employee under Maintain Employee on the Service Purchase tab.

### Service Purchase and Termination Pay

Some PDAs or other service purchase documents provided to the employer will indicate that the member has opted to use termination pay to apply to any remaining amounts due on a PDA or current invoice. *For service purchase purposes only*, termination pay is defined as any lump sum that is paid at the member's termination of employment for accrued vacation, sick leave or overtime pay. (A.R.S. § 38-747(B)(2)) If indicated, all

amounts paid at termination for these three specific payments must be submitted as service purchase deductions, *regardless of the employee's membership date*.

The decision by a member to use termination pay, either through a *Termination Pay Addendum* to a PDA or on a *Termination Payment Authorization for the Purchase of Service Credit* form is optional. However, once elected, the decision is irrevocable. (See Chapter 7: Purchase of Service Credit – Service Purchase Payment Options)

All, or a previously designated amount of, termination pay must be paid directly to the ASRS by the employer for a member who has made this irrevocable election. To maintain compliance with A.R.S. § 38-747 and the Arizona Administrative Code Article 2, Chapter 8, R2-8-519, employers should not send termination pay to any other party, such as a supplemental retirement 403(b) or 457 account, or to the member directly.

In addition, you must submit the total amount for these payments to the ASRS. Do not try to calculate the remaining balance due on a PDA or invoice. The ASRS will apply the amount and return any overpayment to the employer to distribute to the member.

Direct general questions regarding the payroll deduction program and reporting requirements to the Contributions Accounting Department.

### **Administering a PDA**

The PDA is binding and irrevocable. You must administer payroll deduction authorizations according to the terms contained in the PDA and as explained below:

- ❑ Wait to receive a letter from the ASRS informing you that a member has a PDA before taking any action.
- ❑ Verify that the member has sufficient funds available in regular pay (do not include overtime or other non-regular payments) to cover the payroll deduction amount. A payroll deduction for a service purchase is made after other mandatory deductions (i.e., federal and state taxes, court-ordered support or other garnishments, etc.) and before any voluntary deductions.
- ❑ If the member's regular pay does not cover the payroll deduction amount, deny the agreement and refer the member back to the ASRS to request a new PDA. Advise the member of the maximum amount available for deduction.
- ❑ Deduct the required amount from the member's pay each regular pay period, beginning with the first pay period after receiving the PDA (unless otherwise specified on the PDA) until the full number of deductions authorized in the PDA have been made.
- ❑ Reduce the member's taxable income by the amount of the deduction. Reduce only Federal and State wages; do not reduce Social Security or Medicare wages.
- ❑ Deny a request from the member to rescind the agreement except on completion of the agreement or termination of employment. If a member transfers between positions or units for the same employer, or goes to work for another ASRS employer, the PDA remains in effect pursuant to A.R.S. § 38-747 (b)(7).

- ❑ Deny a request from the member to either reduce or increase the deduction amount. When entering into the PDA, a member may reduce voluntary deductions to permit the amount necessary for the PDA to be deducted.
- ❑ Upon a change in mandatory deductions in any pay period that prevents the full amount from being made for the payroll deduction, deduct the reduced amount left for the service purchase. The agreement will be extended until the total amount due for the PDA is made or the employee terminates employment. Use the “Comments” section of the CSR to explain the reasons for the reduced payment.
- ❑ Do not deduct PDA payments from any termination pay, unless it is specifically listed in the PDA agreement.

### **Changes in Employment Status**

- ❑ Upon hiring, ascertain if a new employee has an existing PDA due to previous employment with an ASRS employer. If a member has a PDA and transfers employment from one participating ASRS employer to another, the PDA may still be in effect. The employee must contact the ASRS Member Advisory Center to reissue the PDA, listing you as the new employer.
- ❑ Upon a status change, such as leave without pay, sabbatical, disability or another situation that creates a reduction in hours or earnings and that results in a reduction of the amount available for the service purchase payroll deduction:
  - Deduct and remit the amount available. The ASRS will extend the period for the payroll deduction until the total amount required to be paid under the terms of the PDA is paid, or the member terminates employment with an ASRS employer, or the member retires.
  - Use the “Comments” section of CSR to explain the reasons for the reduced payment.
- ❑ Upon a change in position, retirement system or hours which results in the member no longer being eligible for making retirement contributions, you must continue remitting PDA payments on any regular wages the member earns although you must stop the retirement and LTD contributions.
- ❑ If the member terminates or retires, the member must notify the ASRS within 14 calendar days before or 14 calendar days after termination or retirement that they wish to pay off the PDA through a lump sum payment. Refer the member to the ASRS Member Advisory Center for specific instructions.

## Sample Letter to Employer Regarding PDA



### ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO Box 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: CONTACTUS@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson  
Director

04/29/2011

ASRS Employer  
Payroll Department  
1212 Main St  
Phoenix, AZ 85000

RE: SERVICE PURCHASE PAYROLL DEDUCTION AGREEMENT – PDA

Attached is the **ASRS approved** service purchase payroll deduction agreement signed by the member. You should begin deducting on the next available payroll period ending after receipt of this agreement or on the requested deduction start date listed below. If you are not going to implement this agreement within 90 days of the issue or requested start date, complete the information in the shaded box below, sign and fax or mail this letter back to us as verification of your intent. ***Do not fax or send this letter back unless you are unable to meet the 90-day time frame.***

Agreement Number:	90723
Employee Name:	Jane Smith
Employee SSN:	123-45-6789
Employer Number:	123456
Amount of Deduction:	35.98
Total Number of Full Payments:	435
Total Amount of the Agreement:	\$15,651.30
Type of Service to be purchased:	Other Public Service Non-participatory
Requested Deduction Start Date:	
PDA Payoff uses Terminated Pay:	No

This agreement is irrevocable and will stay in effect until the total amount of the required deductions has been paid to the ASRS or until the member terminates employment with you.

If you have any questions or cannot implement this agreement as specified, please contact us at 1-800-621-3778 x2010, (602) 240-2010, or fax number (602) 240-5314.

AGREEMENT WILL BE IMPLEMENTED ON PAYROLL PERIOD ENDING: \_\_\_\_\_

Reason not implemented sooner: \_\_\_\_\_

# Chapter 7:

## PURCHASE OF SERVICE CREDIT

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The service purchase program allows eligible members to buy service credit if they are either actively contributing to the ASRS or currently receiving a long term disability (LTD) benefit and have eligible service under specific qualified categories. Members may also be eligible to transfer service credit from other Arizona public sector and Charter City retirement systems.

Service purchases are paid for by the member (or transferred to the ASRS). There is no cost to the employer. Generally, employer responsibilities are to keep employees informed of opportunities to purchase additional service credit toward retirement and to refer members to the ASRS Member Advisory Center with specific questions.

In order to request the purchase of service, a member must be actively contributing to the ASRS or be receiving an LTD benefit from the ASRS. This means a request must be initiated prior to termination of employment, including prior to retirement.

In addition to being an actively contributing member, to purchase service, a member:

- ❑ Must have at least 5 years of ASRS service credit to request the purchase
- ❑ Is limited to purchasing a maximum of 5 years per type of service
- ❑ May not purchase service for time for which they are receiving or are eligible to receive other retirement benefits, unless otherwise noted

**NOTE:** *These restrictions do not apply to the reinstatement of previously forfeited service.*

**Members may only have one active request for a given type of service at a time.** If a member wants to make more than one service purchase, they must wait until payment is established on an active request before making a new request. In addition, members will be credited with a maximum of one year of service credit for any fiscal year.

**NOTE:** *In some cases, a member may have eligible service that overlaps or covers the same time period (such as military reserve duty and other public service). Additional credit will not be given for any overlapping service; the member will only receive credit for one year in any fiscal year.*

## ASRS Service Credit

Credited service is the measure of service that a member earns for work covered by ASRS membership. (A.R.S. § 38-739) The amount of service credited to the member's account and the member's average monthly compensation directly determine the member's retirement benefit.

An ASRS member earns credited service on a proportionate basis for each month during which work is performed and for which contributions are received during a fiscal year. All members may earn a maximum of one year of service credit for each fiscal year they work.

A twelve-month employee receives one-twelfth of a year of service credit for each month in which contributions are reported, as determined by pay period ending dates reported during the year. An employee working under a contract of nine or more months receives one-ninth of a year of service credit for each month in which contributions are reported. (A.R.S. §§ 38-711(31) and 38-739)

Purchasing additional eligible service will increase a member's overall credited service. This may affect how soon the member meets retirement eligibility and may increase the member's monthly lifelong benefit.

## Types of Service Eligible for Purchase

A description of each type of service that may be purchased is provided in this section. Required service purchase forms, online tools, and estimators can be found on the ASRS website under the Members tab and Service Purchase link.

### Forfeited ASRS Service

When a member applies for a withdrawal of contributions and forfeits ASRS membership, the service credit represented by the refunded contributions is referred to as forfeited ASRS service. (See Chapter 8: Leaving Employment – Refund of Contributions) Receiving a refund terminates ASRS membership and the individual is no longer eligible for a benefit for that previous time period.

If an employee begins working for an ASRS employer again, meets membership criteria, and begins actively contributing, the employee may request to reinstate all or any portion of credited service from previous ASRS employment that was forfeited when the refund was taken. (A.R.S. § 38-742)

**NOTES:** *Members receiving benefit payments under the LTD program are also eligible to reinstate forfeited ASRS service.*

*If the member resumes active contributions on or after July 1, 2011 and reinstates service that was performed before July 1, 2011, the reinstatement does not restore the benefit eligibility or criteria that were in place at the time of the prior service. The member who resumes active membership on or after July 1, 2011 will be subject to the plan requirements and benefits in effect at the time the member resumes active membership.*

*If the member reinstates service that was performed before January 1, 1984, the reinstatement restores the member's right to use termination pay for the pension benefit calculation. (See Chapter 5: Compensation - Compensation for Pre-1984 Members)*

The cost for reinstating previously forfeited ASRS credited service is the total gross amount of the refund (including the amount of any taxes withheld) plus accrued interest to the date of the request to reinstate. If the member elects to reinstate only a portion of a period of previously forfeited service, the cost is prorated from the total cost of the full period.

**NOTE:** *If the member only purchases a portion of the total forfeited service available, the most recent service credit is reinstated first. For example, if a member forfeited five years of service for the July 1982 through June 1987 time period and chooses to purchase only three years, the member will be credited for July 1984 through June 1987. This means the member will not be considered a pre-1984 member.*

Because interest accrues on the contributions, the longer a member waits to make a purchase, the greater the cost. The ASRS interest rate is set at the ASRS assumed earnings rate, which is currently eight percent.

## **Leave of Absence**

An eligible member may purchase up to 12 months of service credit for each approved unpaid leave of absence event from an ASRS employer up to a lifetime maximum of 5 years. For the purpose of service purchase, the ASRS treats multiple, consecutive periods of absence without a return to employment between absences as one leave of absence event.

The time may be purchased under the following guidelines:

- ❑ At the time the absence was granted, the member was an active ASRS member or receiving an LTD benefit
  - ❑ The member must have returned to work with the same employer, unless:
    - The position was no longer available, or
    - The member was disabled and could not return to work
- NOTE:** *In a case where the member was unable to return to work because a position was not available, an inactive member may be eligible to purchase this time if they have not received a refund of contributions from the ASRS. If the member took a refund of contributions, the unpaid leave of absence time may not be purchased. However, the member may restore eligibility to purchase the leave of absence period by reinstating the forfeited service credit for the period before the absence.*
- ❑ The employer must certify that the leave of absence benefited or was in the best interest of the employer and was in accordance with the employer's established guidelines
  - ❑ A maximum of one year of service credit for each approved, unpaid leave of absence event may be purchased
  - ❑ The member cannot receive a benefit or be eligible to receive a future benefit from any other retirement plan based on the time period of leave of absence to be purchased

## Summary of Employer Responsibilities for Leave of Absence Purchases

- ❑ Inform the member of the option to purchase service credit when the member applies for and returns from an unpaid leave of absence
- ❑ Direct the member to contact the ASRS for the *Approved Leave of Absence* request form to purchase service credit. The employee must deliver the form to you for completion of the employer portion of the form. (See sample form at the end of this chapter)
- ❑ Complete the employer portion of the *Approved Leave of Absence* request form to verify the period of the absence and that the absence was in the best interest of the employer
- ❑ Be aware that any month(s) for which no contributions are reported to ASRS and that fall within a period of an unpaid leave of absence are excluded from the consecutive months of compensation used to determine a retirement benefit unless the member purchases that time. **NOTE:** *Partially paid leaves of absence (which are not eligible for purchase since the ASRS will receive some contributions and the member will receive service credit) may be included in the months and have an effect on a retirement benefit. (See Chapter 8: Leaving Employment – Retirement Benefit Calculation)*

## Other Public Service

An eligible member may purchase up to a lifetime maximum of 5 years of service credit for time worked for a United States public employer. United States public employer is defined as the United States government, a state, territory, commonwealth, overseas possession or insular area of the United States or a political subdivision of each, including local governments and special districts such as fire, water conservation and irrigation districts. (A.R.S. § 38-743)

When completing the required form to request this purchase, the member must indicate whether the other public service time was covered by a retirement plan and whether the member is receiving or eligible to receive a future retirement benefit for the service. A member cannot receive a benefit or be eligible to receive a future benefit from any other retirement plan based on the time period of service to be purchased. To complete the purchase for ASRS service credit, a member must forfeit all rights to future benefits under the previous plan. This is usually accomplished through a withdrawal or rollover of funds from the previous plan.

A member may also purchase time worked for another public employer even though no contributions were made to a retirement plan. This may include waiting periods for eligibility or work which did not meet eligibility requirements to participate in a public retirement plan. For example, if a member worked for an ASRS employer but initially did not meet membership criteria, or is a state employee subject to a 26-week waiting period, the member may choose to purchase the time as Other Public Service with an ASRS employer once all other service purchase eligibility requirements are met.

## Active Military Service

An eligible member may purchase up to a lifetime maximum of 5 years of service credit for active military duty, including active reserve or National Guard duty. The member must have received an honorable discharge from the military and must provide a copy of the military service record, such as a DD-214 or its equivalent, to document the active duty service. (A.R.S. § 38-745)

When completing the required form to request this purchase, the member must indicate whether they are eligible for a military retirement benefit at the time of the request. Per A.R.S. § 38-745, a member cannot be eligible to receive a military retirement benefit at the time of the request to purchase regular active duty military service. However, as provided by 10 U.S.C. § 12736, members who are either eligible for or are currently receiving a non-regular military retirement benefit may purchase non-regular (Reserve/Guard) active duty (such as meetings or drills) military service.

**NOTE:** *An active member who volunteers for or is ordered by a military call-up to active military service when working for an ASRS employer may be eligible to receive ASRS credited service for up to 60 months of the period of the active duty through the Military Call-Up process. (See Chapter 5: Compensation - Compensation for Military Call-Up and Chapter 6: Contribution Reporting – Special Reporting – Military Call-up) The member should **not** use the Active Military service purchase process to receive credit for these call-up months.*

## Service Purchase Cost and Payment Options

### Service Purchase Cost

The cost to purchase service, except for forfeited ASRS service, is based on the Actuarial Present Value method. Actuarial Present Value defines the current value of a member's future retirement benefit compared to the value of the benefit with the additional service years included in the calculation. The member pays the difference between these two values, thereby fully funding the future benefit.

The Actuarial Present Value method accurately captures the cost of service purchase because it relies on individual calculations, factoring in a member's years of service, age, current annual compensation, and amount of service credit purchased.

### Service Purchase Payment Options

Arizona law allows members to purchase service credit utilizing one of five payment methods. A member who wishes to make multiple service purchases may utilize a different payment option for each separate purchase.

#### **After-Tax Payment:**

The full or partial cost of the purchase may be made in after-tax payments. After-tax payments are checks from the member, whether personal or cashier, payable to the ASRS.

**Limitations:** For individuals who became members of the ASRS on or after July 1, 1999, after-tax payments are restricted under provisions of A.R.S. § 38-747 and subject to the annual limits (highest payment allowed) on contributions to the ASRS contained in 415(b) and (c) of the Internal Revenue Code of 1986. Subject to criteria of the law, individual limits may vary; members should consult a tax advisor.

After-tax payments cannot be used to purchase other public service for employment with a political subdivision of a U.S. territory, commonwealth, overseas possession or insular area.

### **Rollover/Transfer:**

A rollover is a transfer of monies from an eligible retirement or other qualifying plan to the ASRS. To be accepted by the ASRS, a rollover must meet specific criteria.

### **Payroll Deduction Authorization (PDA) Payments:**

A PDA is a contract between the member and the ASRS and allows payment for service purchase to be made via payroll deductions. The PDA is approved by the IRS as a pre-tax salary reduction that reduces the participating member's taxable income by the amount of the payroll deduction authorized under the agreement.

PDAs will include interest charges at a rate equal to the ASRS assumed earnings rate, which is currently eight percent. (See a sample PDA at the end of this chapter)

A PDA is a binding contract that can only terminate if the contract is completed or the employee terminates employment. (See Chapter 6: Contribution Reporting - Reporting Payroll Deductions for Service Purchase and Administering a PDA)

At the time the PDA contract is signed, the member can elect to have any termination pay applied to the balance at the time of termination. (See Termination Pay in this chapter)

**Limitations:** A member who is paying for a Contributions Not Withheld (CNW) error that corrects only compensation history and not service credit history may not elect to use a PDA. (See Chapter 6: Contribution Reporting – Correcting Contribution Errors – Previous Fiscal Year)

### **Termination Pay**

For service purchase purposes only, termination pay means any lump sum that is paid at the member's termination of employment for accrued vacation, sick leave, or overtime pay. These specific payments at termination may be used to purchase service in two ways:

- ❑ As part of a PDA: To use termination pay toward a PDA, the member must have selected the option on the *Termination Pay Addendum* at the time the PDA agreement was signed and at least three full calendar months before termination. (See sample *Termination Pay Addendum* at the end of this chapter)
- ❑ As a separate, lump sum payment option: This option must be elected at least three full calendar months prior to, but no earlier than six months prior to, a member retiring or terminating employment. It is the employee's responsibility to submit a completed copy of a signed *Termination Payment Authorization for the Purchase of Service Credit* form to their employer.

The decision to use termination pay, either through a *Termination Pay Addendum* to a PDA or on a *Termination Pay Authorization for the Purchase of Service Credit* form, is optional. However, once elected, the decision is irrevocable. All, or a previously designated amount, of termination pay must be sent directly to the ASRS from the employer for a member who has made this irrevocable election. For more information about submitting termination pay for service purchase, see Chapter 6: Contribution Reporting – Reporting Payroll Deductions for Service Purchase – Service Purchase and Termination Pay.

## Transfers to and from Other Arizona Retirement Plans

An eligible member may transfer service credit from any of the following Arizona public sector and Charter City retirement plans as specified in A.R.S. § 38-730:

- ❑ Elected Officials' Retirement Plan (EORP)
- ❑ Public Safety Personnel Retirement System (PSPRS)
- ❑ Corrections Officer Retirement Plan (CORP)
- ❑ City of Phoenix Employees Retirement System (COPERS)
- ❑ City of Tucson Supplemental Retirement System (TSRS)

Such transfers may take place before or at the time of retirement. (A.R.S. §§ 38-730, 38-855, 38-921, and 38-922)

The prior retirement system or plan calculates the amount equal to the actuarial present value of a member's projected benefits to the extent funded on a market value basis as of their most recent actuarial valuation. This amount will be as calculated by that system's or plan's actuary using the same actuarial method and assumptions used in calculating that system's or plan's funding requirements based on the transferring member's service credits at the time of transfer.

The two plans then determine, according to procedures established in statute, the amounts that will be transferred. Because the value of the service may be greater with a prior plan, the member may be required to pay an additional amount to transfer the full amount of credited service earned. The member may also choose to transfer a prorated amount for a lesser amount of service credit.

For more information, contact the system to which service is being transferred.

## Notes

## Common Questions and Answers for Employees

The ASRS service purchase program is largely a function between the member and the ASRS. However, employees may come to you with questions, particularly with regard to a PDA, that already may not have been answered in this chapter or in Chapter 6: Contribution Reporting – Reporting Payroll Deductions for Service Purchase. This additional information is not meant to make the employer responsible for answering detailed service purchase questions, but rather to help you understand the benefit and process. Please advise employees to contact the ASRS Member Advisory Center directly for more specific information.

### **Question 1: Do I have to purchase the full amount of service eligible for purchase?**

**Answer 1:** No. You may purchase all or any portion of the service eligible for purchase. You have the option to buy the remaining amounts at a later time. The cost to purchase at later date will be determined using the calculation formula in place at the time of the request. Your purchases are limited to a lifetime maximum of 5 years per type of service, except for previously forfeited ASRS service (which is limited by the number of years forfeited).

### **Question 2: How do I determine the terms for the payroll deduction?**

**Answer 2:** An ASRS Member Services Division benefit advisor will help you determine the terms for the payroll deduction that best meet your needs. ASRS staff members use a computer program that calculates multiple scenarios based on the selection of different options. These options include how much service you want to buy, the total amount you want to pay, and how much you can afford per pay period. This can be done by telephone, mail or in person.

### **Question 3: How much can I pay each pay period by payroll deduction?**

**Answer 3:** The minimum amount is \$10.00 or 0.001 of service credit, whichever is greater. There is no maximum amount for a payroll deduction. You can pay as much as you want, as long as your pay will cover it. The total deduction cannot exceed the amount of pay available after withholding of all other mandatory deductions. You cannot change the amount withheld from your pay after the agreement is in effect. The ASRS recommends consulting your financial advisor before making this commitment.

### **Question 4: How long can I take to complete the service purchase?**

**Answer 4:** As long as you remain an actively contributing ASRS member, you have a maximum of 20 years to complete the purchase using a payroll deduction. The length of time needed to complete a service purchase depends on the amount deducted each pay period.

### **Question 5: How is the payroll deduction started?**

**Answer 5:** The payment terms are recorded on the *Payroll Deduction Authorization (PDA)*. After you sign the PDA and return it to the ASRS, the ASRS will forward the PDA to your employer. Your employer will begin making deductions on the first pay period after receiving the information from the ASRS.

### **Question 6: Do I have to pay anything extra to make my purchase by payroll deduction?**

**Answer 6:** For all service purchase requests made since July 1, 2004, interest of eight percent is amortized over the life of the PDA and is added to the cost of the service.

**Question 7: What if I retire or terminate employment with an ASRS employer before I complete the purchase?**

**Answer 7:** If you are terminating employment from all ASRS employers, your PDA ends and you will receive service credit for only the amounts already deducted. If you wish to pay the remaining amount due on a PDA, you must request a payoff letter from the ASRS within 14 business days prior to or after your termination of employment. The ASRS will provide you with an invoice for the remaining cost and payment options.

If you are going to work for another ASRS employer within 120 days, per statute, your PDA must transfer to the new employer. You must notify the ASRS of the change in employment so that the ASRS can transfer the PDA and notify your new employer to continue deductions until all payments are made or until you terminate employment.

**Question 8: Can I make changes to other deductions from my pay after the PDA is in place?**

**Answer 8:** Yes. You can add or make changes to other voluntary deductions as long as the new deduction does not affect the payroll deduction required by the PDA. You cannot add or change voluntary deductions from your pay if the change leaves an insufficient amount to cover the deduction for the service purchase.

Voluntary deductions include voluntary income tax deductions, changes to health insurance coverage, amounts paid to tax deferred annuities or deferred compensation plans, and any other deduction subject to the choice of the member.

**Question 9: Can I have more than one payroll deduction agreement?**

**Answer 9:** Yes. You can buy part of your available service credit by payroll deduction and buy additional amounts with another PDA at a later time, or you can purchase a separate period of time with another PDA. Additional agreements do not change the terms of any existing PDA.

**Question 10: How is the purchased service credited to my retirement account?**

**Answer 10:** You earn a prorated amount of service for each PDA payment received. The ASRS credits the service to your retirement account at the same time that service is credited for regular retirement contributions.

**Question 11: What other issues should I consider in choosing payroll deduction for a service purchase?**

**Answer 11:** Choosing to have the maximum amount deducted from your pay each pay period may affect your flexibility in dealing with unforeseen life circumstances or emergency expenses. Entering into a contract that requires the minimum amount could similarly affect your flexibility due to the length of the contract. You will have the greatest flexibility with an easily affordable deduction amount and reasonable payback period. The ASRS recommends talking with your financial advisor before making any PDA decision.

# Sample Approved Leave of Absence Form



## ARIZONA STATE RETIREMENT SYSTEM (ASRS) APPROVED LEAVE OF ABSENCE

COMPLETE AND SEND TO:  
ASRS Member Services  
PO Box 33910  
Phoenix, AZ 85067-3910

Phoenix (602) 240-2000  
Tucson (520) 239-3100  
Toll-free (800) 621-3778  
Fax (602) 240-2096  
www.azasrs.gov

Disclosure of your Social Security number is mandated by Section 6109 of the Internal Revenue Code. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account or to inform the Internal Revenue Service about distributions and withholdings with respect to the individual's account.

### SECTION 1 – Member Information (To be completed by the member.)

Social Security Number <i>000-00-0000</i>	Name (Last) <i>Jones</i>	(First) <i>Jane</i>	(Middle Initial) <i>J</i>
Mailing Address <i>9999 E Main St</i>		Other Names Used <i>(e.g. maiden name)</i>	
City <i>Main City</i>	State <i>AZ</i>	ZIP <i>99999</i>	Daytime Telephone Number <i>(520) 999-9999</i>

### Member Statements of Understanding, Permission, and Signature

Your signature below indicates you have read, understand, and agree with each statement.

- I understand I may purchase Leave of Absence (LOA) service credit of up to one year, per each approved leave of absence, if I returned to work with the same employer that approved the LOA.
- I certify that if I did participate in another public retirement system during my LOA, I am neither eligible to receive, nor receiving a retirement benefit from the other retirement system for the time listed by my employer as approved LOA.
- The ASRS will use the Actuarial Present Value calculation method to determine the cost of my service purchase request.
- I give my authorization for the employer named below to share all necessary information from my records to process this request.

Member Signature <i>Jane J. Jones</i>	Date <i>9/9/2011</i>
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### SECTION 2 – Employer Section (To be completed by the Employer. By signing, the Employer is verifying the approved Leave of Absence benefited or was in the best interest of the Employer.)

Approved Leave of Absence Period <i>07/30/2009</i> Through <i>02/19/2010</i> (MM/DD/YYYY) (MM/DD/YYYY)	Return to Work Date <i>02/20/2010</i> (MM/DD/YYYY)
<b>OR:</b> If employment was not resumed, why (e.g. disability or no position available). <i>Please fill this field if applicable</i>	
Employer Name <i>Public Employer A</i>	Phone Number <i>(520) 999-0000</i>
Authorized Employer Representative's Name (Please print.) <i>John Smith</i>	Fax Number <i>(520) 999-0001</i>
Authorized Employer Representative's Signature (Please sign.) <i>John Smith</i>	Date <i>9/10/2011</i>



**Sample PDA for Employees (page one of two)**

Date \_\_\_\_\_

Member Name  
Address  
City State ZIP

**Irrevocable Payroll Deduction Authorization for the Purchase of Service Credit**

This is a contract between the Arizona State Retirement System (ASRS) and the undersigned member for the purpose of allowing the member to purchase service credit, or to redeposit contributions previously withdrawn, through regular payroll deductions.

**The ASRS must receive this signed agreement within 30 days from the date indicated above for it to be processed.** If it is not returned within the allotted time, the cost to purchase the service and the PDA will be null and void.

**Member Authorization for Payroll Deductions**

Please read the following and sign below to indicate your understanding and authorization of the terms of this contract.

I understand that Section 414(h)(2) of the Internal Revenue Code requires this Payroll Deduction Authorization (PDA) relating to my redeposit or purchase of service credit to be irrevocable in order to qualify it for tax deferral.

To establish the deductions from my salary for the purpose of purchasing service credit with the ASRS, I hereby authorize the following:

- 1) The amount of the deduction for each payroll period will be: \$25.00
- 2) The total amount of the authorized deductions will be: \$2,500.00
- 3) The number of full-deduction payments required to complete this purchase is: 1000
- 4) The total years of service credit to be purchased is: .57
- 5) The type of service credit to be purchased is: Other Public Service
- 6) **Payroll deductions will continue until the total amount of the required deductions has been paid to the ASRS.**
- 7) The cost to purchase this service includes an 8% per annum interest charge on the unpaid balance.

I, the undersigned, have personally initialed Statements 1 through 13 on Page 2 of this contract. I irrevocably authorize the payroll deductions detailed above, under the conditions specified.

Social Security Number\*: 999-99-9999

Agreement Number: 123456

Member Signature \_\_\_\_\_ Date \_\_\_\_\_

Employer Number: 000000      Employer Name: ASRS Employer

\* Disclosure of your Social Security Number is mandated by Section 6109 of the Internal Revenue Code. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account and to inform the Internal Revenue Service about distributions and withholdings with respect to the individual's account.

## Sample PDA for Employees (page two of two)

### Irrevocable Payroll Deduction Authorization

Carefully read and initial each statement to indicate your understanding.

- 1. This Payroll Deduction Authorization (PDA) is binding and irrevocable.
- 2. Payments specified in this PDA are in addition to the regular, required contributions I make to the ASRS.
- 3. Payments specified in this PDA must be made directly to the ASRS from my employer, and I do not have the option of receiving such funds directly from my employer.
- 4. My employer is obligated to make payments pursuant to this PDA after other mandatory deductions are made.
- 5. My employer cannot accept an election to change voluntary deductions from my pay if the change would leave an amount insufficient for the deduction agreed upon in this PDA. For example:
  - Voluntary changes to Federal and State Income Tax withholding.
  - Voluntary changes to medical or dental insurance coverage.
  - Voluntary deductions for tax-sheltered annuities or deferred compensation plans.
- 6. This agreement shall remain in effect until (a) the authorized payroll deductions are completed, or (b) my employment is terminated, whichever occurs first. **There is no provision for termination of this PDA due to financial hardship.**
- 7. Service will be credited only upon the receipt of payments authorized by me under this PDA.
- 8. If I have elected in this PDA to purchase only a portion of the service credit to which I am entitled, I may be eligible to make additional irrevocable PDAs with my employer. At that time, I may make contributions to the ASRS to purchase additional service credit. However, such additional PDAs, after-tax contributions, contributions by trustee-to-trustee transfers, and rollover contributions will not alter, amend, or revoke the provisions of this PDA.
- 9. If I terminate my employment from **ANY** ASRS employer, and a period of more than 120 days elapses without re-employment with another ASRS employer, I understand that this PDA will be terminated. However, if I return to work for **ANY** ASRS employer in less than 120 days from my initial termination of employment, I understand that this PDA **MUST** continue with my new employer. I further understand that it is my responsibility to notify the ASRS **in writing** of any changes in my employment that will affect the status of my PDA.
- 10. Within 14 days before to 14 days after the termination of my employment, LTD or my effective ASRS retirement, I may request, **in writing**, that the ASRS calculate the amount I still owe for this PDA. I further understand I must complete any such purchase within (a) 30 days from the date of my PDA pay-off letter if my payment consists of after-tax money (subject to state and federal laws), or (b) 90 days from the date of my PDA pay-off letter if my payment consists of a trustee-to-trustee transfer or rollover.
- 11. It is my responsibility to ensure that my employer properly deducts payments as provided by the terms of this PDA.
- 12. The amount of PDA payments I may make is subject to federal laws.
- 13. The cost to purchase this service includes an 8% per annum interest charge on the unpaid balance.

### Termination Pay Addendum to the Irrevocable Payroll Deduction Authorization

**IMPORTANT:** The following election is optional. You should initial the following statement, elect a termination pay option, sign and date this addendum only if you wish to and agree to irrevocably commit to use termination pay that is payable to you upon your separation of service toward any remaining service balance of this contract if the terms of the contract have not been fulfilled upon your separation of service.

- 14. This election is optional, initialing here means you agree to the statements listed below, in order to use any vacation, sick and overtime pay that would be payable to you upon your termination of service.
  - I understand and agree that I must continue working at **least three full calendar months** after the date that I submit this Irrevocable Payroll Deduction Authorization before termination pay may be used on a pre-tax basis.
  - I further understand that if my termination payment exceeds the balance due on my contract, the ASRS shall return the difference to my employer to be distributed to me.
  - I have elected to irrevocably agree to have termination pay, as indicated below, that may be payable to me upon termination of employment, sent to the ASRS on a pre-tax basis and supplied toward any remaining balance of this contract if all scheduled deductions have not been completed upon my separation of service. (Check  ONLY one.)
    - All termination pay (vacation, sick and overtime pay).
    - The following amount of my termination pay \$ \_\_\_\_\_ [insert amount] or all termination pay, whichever is less.

**Employers:**

Termination Payment should be submitted as a separate check made out to the ASRS FBO (member's name and SSN) and mailed to P.O. Box 34030, Phoenix, AZ 85067-4030

# Chapter 8:

## LEAVING EMPLOYMENT

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When a member leaves employment with an ASRS employer, the ASRS does not need to be notified. The member's account will be maintained by the ASRS until the member returns to ASRS-participating employment or requests a payment – either by applying for a refund of contributions or for a retirement benefit. In either event, the employer may be required to submit information in order for the ASRS to accurately process the transaction.

### Leaving Employment before Retirement

When a member terminates employment with an ASRS employer before retirement, the member has the following options concerning their retirement account:

- ❑ Leave the retirement account on deposit with the ASRS
- ❑ Take a refund of all contributions and forfeit current and future ASRS benefits

The reason for the termination with the employer does not affect a member's ASRS options.

### Leaving Funds on Deposit with the ASRS

Upon leaving employment, a member may choose to leave the retirement account on deposit with the ASRS. The member is not required to contact the ASRS to elect to leave funds on deposit; however, the member must provide the ASRS with a current mailing address to enable communication regarding the status of the account and benefits.

Although the member is not contributing to the account (and is considered inactive), the member retains rights to several of the benefits of ASRS membership including:

- ❑ Interest will accrue to the account each fiscal year at the percentage set forth by the ASRS Board of Trustees
- ❑ A survivor benefit is payable to the member's beneficiary in the event of the member's death
- ❑ The member may request a refund at any time after termination of employment
- ❑ The member may apply for retirement benefits at any time after the member meets retirement eligibility; upon retirement, the member may be eligible for ASRS retiree health insurance and other benefits. **NOTE:** *Deferring retirement to a later date may allow the member to meet normal retirement criteria for an unreduced retirement benefit. However, in some cases, when a member has*

*stopped contributing and has reached a normal retirement date, delaying retirement will not result in an increased benefit amount.*

- If the member returns to work with another ASRS employer, the account is reactivated and new contributions and credited service will be added.

**NOTES:** *Federal law requires a member who has terminated, is no longer contributing, and is age 70 ½ to take a minimum distribution from the retirement account. The ASRS will communicate with these members to advise them of their benefit payment options. A member who is not currently contributing is **not** eligible for long term disability (LTD) benefits. An inactive member may not voluntarily make contributions to an ASRS account.*

## **Refund of Contributions**

A member who terminates employment may obtain a refund of contributions from the ASRS. The term “refund” is interchangeable with “forfeiture” and “withdrawal of contributions.” For simplicity we will use “refund” in this chapter.

When a member obtains a refund, the member forfeits and waives:

- Any service credit that has accrued to the retirement account
- Any rights to a future retirement benefit for this service unless the member returns to ASRS-participating employment and reinstates the previously forfeited service credit (See Chapter 7: Purchase of Service Credit - Forfeited ASRS Service)
- Any rights to retiree health insurance benefits  
Any rights to LTD benefits. If the member is currently receiving an LTD benefit and obtains a refund, the LTD benefit will stop.

## **Eligibility for a Refund**

A member may request and receive a refund of contributions only if the member has terminated employment with all ASRS employers and has no verbal or written agreement (or contract) for future employment with any ASRS employer.

This means members who meet any of the following circumstances are **not entitled to receive a refund**:

- A member terminates and immediately returns to work with an ASRS employer
- A member terminates but has the intent or an agreement to return to work with an ASRS employer
- A member has a change in membership eligibility status due to a reduction in hours, a leave of absence, or other reason but does not terminate employment
- A member transfers from one state agency to another state agency or from one department to another department within an organization
- A member changes to a new position at the same employer that is not covered by the ASRS, or participates in another state retirement program with the same

or another ASRS employer. **NOTE:** *The member may be eligible to transfer the ASRS service credit to the new retirement system. (See Chapter 7: Purchase of Service Credit – Transfers to and from Other Arizona Retirement Plans)*

In all of these cases, the member has not terminated employment or ended the employment relationship with all ASRS employers.

**NOTE:** *A court may order the forfeiture of retirement benefits if a member is convicted of or pleads no contest to a felony that was committed in the course of public employment.*

## Notes

## Amount of Refund

**A member who began contributing to the ASRS prior to July 1, 2011,** terminates employment, and chooses to apply for a refund is entitled to receive:

- ❑ All member contributions
- ❑ Interest payable for a refund. Under the ASRS, all accounts earn eight percent interest on contributions, which is applied to account balances at the end of each fiscal year (June 30). For the purposes of refunds only, the earned interest applied to account balances on and after July 1, 2005 is payable at the rate of four percent.
- ❑ All monies paid for service purchase (See Chapter 7: Purchase of Service Credit)
- ❑ A portion of the employer contributions made on the member's behalf, based on the total years of credited service accrued to the member's account (A.R.S. § 38-740)

Total Years of ASRS Service Credit	Percent of Employer Contributions Refunded to Member
0.0 to 4.99 years	0%
5.0 to 5.99 years	25%
6.0 to 6.99 years	40%
7.0 to 7.99 years	55%
8.0 to 8.99 years	70%
9.0 to 9.99 years	85%
10.0 or more years	100%

**NOTE:** *The amount of employer contributions excludes payments made by the employer to correct a Contributions Not Withheld error unless the member also made the required payments. (See Chapter 6 – Contributions Not Withheld) The employer's contributions remain in the trust fund.*

**A member who began contributing to the ASRS on or after July 1, 2011,** terminates employment, and chooses to apply for a refund is entitled to receive:

- ❑ All member contributions
- ❑ Interest payable for a refund. For the purposes of refunds only, the earned interest applied to account balances after July 1, 2005 is payable at the rate of four percent.
- ❑ All monies paid for service purchase (See Chapter 7: Purchase of Service Credit)

**NOTE:** *These members are **not entitled to receive any employer contributions** except in the case of a termination due to an employer reduction in force or position elimination. (A.R.S. § 38-740) The employer's contributions remain in the trust fund.*

**EXAMPLE #1:** An ASRS member who began contributing to the ASRS in January 2011 terminates employment after six years of ASRS service. The total employee contributions and payable interest equals \$8,000. The employer contributions and interest also equals \$8,000. The ASRS will refund a gross amount of \$11,200 (the employee's \$8,000 plus 40% of the employer's \$8,000) because the employee's membership date is before July 1, 2011.

**EXAMPLE #2:** An ASRS member who began contributing to the ASRS in August 2011 terminates employment after six years of ASRS service. The total employee contributions and payable interest equals \$8,000. The employer contributions and interest also equals \$8,000. The ASRS will refund a gross \$8,000 (the employee's \$8,000 only) because the employee's membership date is after July 1, 2011.

**EXAMPLE #3:** An ASRS member who began contributing at the ASRS in January 2000 terminates employment after 10 years of ASRS service. The total employee contributions and payable interest equals \$8,000. The employer contributions and payable interest also equals \$8,000. The ASRS will refund a gross \$16,000 (the employee's \$8,000 plus 100% of the employer's \$8,000) because the employee's membership date is before July 1, 2011.

In August 2011, this same member begins working for another ASRS employer and begins contributing again. After five years of ASRS service, the total employee contributions and payable interest equals \$8,000. The matching employer contributions and interest also equals \$8,000. The ASRS will refund a gross \$8,000 (the employee's \$8,000 only) because the employee's *most recent membership date* is after July 1, 2011. This would still be true if the member had reinstated the forfeited service from January 2000.

## Refund Process

In order to provide a member with a refund, the ASRS must receive:

- A completed *Online Refund Application* for withdrawal of contributions and termination of membership from the member. To complete the process, the member may log in to the secure ASRS member account directly from the ASRS website homepage or by selecting the Refund My Account link within the "I Want To..." section on the homepage. **NOTE:** *A request for a refund cannot be submitted prior to a member's termination date.*
- A completed *Ending Payroll Verification (EPV)* for a refund from the employer. This is required from all employers through which the member has contributed to the ASRS within the past six (6) months.

After an employee submits a refund request, an authorized employer representative who has the Ending Payroll Verification Specialist role may log in to the secure employer account on the ASRS website to view and submit the EPV to the ASRS. Employers have the ability to access reports that show a list and the

status of all requests that are current and that have been submitted within the past six months.

On the EPV for a refund, the employer will confirm the employee's termination date and provide information about final contributions. Detailed instructions for submitting an EPV can be found in the *Ending Payroll Verification – Employer User Guide*, which is available on the ASRS website under the Employers tab.

**NOTE:** *If a member has **not** terminated and the employer has not submitted contributions for the member within the past six months (e.g., due to a change in membership status in a new fiscal year), the employer should indicate “Not Applicable” on the EPV. Arizona Revised Statutes and the Internal Revenue Code prohibit giving a refund to a member while the member is still employed, and it is a violation of state and federal law to knowingly falsify a termination of employment form. In some cases, employers may be contacted by an ASRS benefit advisor to confirm termination, particularly for employees who may be contributing to another retirement system but who have an account balance at the ASRS. Because these employees are still working for an ASRS employer, they are not eligible to receive a refund.*

Upon receipt of all accurately completed required documentation, a refund is generally issued within ten business days; there are no provisions to expedite the process. In addition, the member will receive a payment of all balances due; there are no provisions to receive only a partial payment or to request a hardship loan.

## **Refund Distribution Options**

Members who apply for a refund may indicate one of the following distribution options:

### **100% Payment to the Member**

The entire refund amount may be paid to the member via check or a direct deposit to a checking or savings account.

**Tax Consequences:** A refund is subject to federal income tax withholding at a rate of 20 percent on the taxable portion (i.e., member contributions made after 1986, employer contributions, and interest paid) of the refund and Arizona state income tax withholding at 5 percent on the entire refund.

The member also may be subject to an IRS penalty of 10 percent for early withdrawal from the retirement account. Early withdrawal occurs when the member is younger than age 59 ½.

Because of the significant tax consequences of obtaining a refund, a member should consult with financial institution or advisor.

### **100% Direct Rollover to an Eligible Retirement Plan**

The entire refund amount may be rolled over to an eligible retirement plan, in accordance with the requirements of the selected plan.

A rollover may allow the member to avoid the tax consequences and possible penalties associated with a refund.

Depending on the plan, both the taxable and nontaxable portions (i.e., any money on account that was paid as after-tax monies, such as payments made by check for service purchase or pre-1986 deposits) of the refund may be rolled over. For example, nontaxable contributions may be rolled over to defined contribution plans described under the Internal Revenue Code (IRC) 401(a), annuities described under IRC 403(a), or an IRA; nontaxable contributions may not be rolled over to a 457(b) plan or a 403(b) annuity. Any nontaxable portion of the member's refund that cannot be rolled over into a plan will be sent directly to the member.

**NOTE:** Federal law requires a member who is age 70 ½ to take a minimum distribution from the retirement account; a member who is age 70 ½ may not roll over the required minimum distribution. The ASRS will communicate with these members to advise them of their benefit payment options.

### **Combination of Direct Rollover and Payment to Member**

The member will specify an amount to be rolled over; any remaining funds may be paid directly to the member via check or direct deposit.

## **Leaving Employment to Retire**

If the member has met the eligibility requirements, a member who is leaving employment may want to apply for retirement benefits.

### **Eligibility for Retirement**

#### **Normal Retirement**

A member who qualifies for "normal retirement" receives a lifetime monthly benefit determined by the ASRS benefit formula.

**For members who began contributing to the ASRS prior to July 1, 2011, a normal retirement date occurs on meeting the earliest of the following criteria:**

- Age 65 with any amount of credited service
- Age 62 with 10 or more years of credited service
- 80 points; points being a combination of age and years of credited service (e.g., Age 49 + Years of Credited Service 31 = 80 points)

A member may choose to continue employment beyond the first normal retirement date in order to earn a larger retirement benefit based on additional years and the graded multiplier. (See Retirement Benefit Calculation in this chapter)

**For members who began contributing to the ASRS on or after July 1, 2011, a normal retirement date occurs on meeting the earliest of the following criteria:**

- ❑ Age 65 with any amount of credited service
- ❑ Age 62 with 10 or more years of credited service
- ❑ Age 60 with 25 or more years of credited service
- ❑ Age 55 with 30 or more years of credited service

**NOTE:** *There is no point-based normal retirement criterion for members who begin contributing to the ASRS on or after July 1, 2011.*

### **Early Retirement**

A member may retire before reaching normal retirement but will receive a reduced lifetime monthly benefit determined by age and credited service. See the *Preparing for Retirement* link on the ASRS website under the Members tab for more details regarding reduction factors.

To be eligible for a reduced early retirement benefit, a member must meet the following criteria:

- ❑ Age 50 with at least 5 years of credited service

### **Retirement Benefit Calculation**

As outlined in Chapter 2 – Overview of ASRS - ASRS Plan Description and Benefits, the retirement benefit is calculated using a member's average monthly compensation, years of credited service, and a multiplier. The average monthly compensation is determined by one of three calculation methods and is based on the member's initial membership date.

- ❑ **60-month calculation for members who began contributing to the ASRS on or after July 1, 2011.** The ASRS averages the highest 60 consecutive months of compensation within the last 120 months of service. This calculation excludes any termination payments, such as sick leave or vacation payouts.
- ❑ **36-month calculation for members who began contributing to the ASRS before July 1, 2011.** The ASRS averages the highest 36 consecutive months of compensation within the last 120 months of service. This calculation excludes any termination payments, such as sick leave or vacation payouts.
- ❑ **60-month calculation for members who began contributing to the ASRS prior to January 1, 1984.** The ASRS averages the highest 60 consecutive months of compensation within the last 120 months of service. This calculation includes termination payments, such as sick leave (except for state and county employees) or vacation leave payouts, and other types of payments. (See Chapter 5: Compensation – Compensation for Pre-1984 Members) A pre-1984 member may opt to have this calculation performed. The ASRS will calculate a benefit using this 60-month calculation and also calculate a benefit using the

36-month calculation; whichever provides the greater benefit will be the calculation used to finalize the member's lifetime monthly benefit. (See Excess Contributions and Benefits in this chapter)

The last 120 months of compensation is the time period used to determine the average monthly compensation for either the highest 36 or 60 consecutive months. Any month(s) for which no contributions are reported to ASRS are excluded from the consecutive months. Any months that fall within a period of reduced pay such as for a partially paid leave of absence, sabbatical, medical leave, or workers' compensation period may be included in the consecutive months and have an effect on a retirement benefit. However, if the employer provides written documentation for these types of situations, listing the dates and compensation paid, the ASRS may exclude these months from the calculation. For additional instructions, please contact the Employer Relations Department.

## **Retirement Process**

In order for an eligible member to receive a retirement benefit, the ASRS must receive:

- A completed *Application for Retirement Benefit* from the member. A retirement application must be received by the ASRS no later than the desired effective date of retirement. The ASRS recommends submitting the application three to six months before the member's expected retirement date.

The ASRS automatically provides an *Application for Retirement Benefit* if a member requests a retirement benefit estimate within three months of the expected retirement date. The member may also obtain a retirement application and other required forms by utilizing the Retirement wizard found under the Members tab and Forms link on the ASRS website, or by selecting the Retire link within the "I Want To..." section on the ASRS homepage.

The retirement date indicated on the application does not guarantee the member will be paid a retirement benefit beginning on that date. If a member submits retirement paperwork to the ASRS after the chosen retirement date, the retirement date will be moved to reflect the date ASRS received the completed paperwork. The retirement effective date cannot be back-dated.

- A completed *Ending Payroll Verification (EPV)* for a retirement from the employer. This is required from all employers for whom the member worked within the past three years.

After an employee submits a retirement application, an authorized employer representative who has the Ending Payroll Verification Specialist role may log in to the secure employer account on the ASRS website to view and submit the EPV to the ASRS. Employers have the ability to access reports that show a list and the

status of all requests that are current and that have been submitted within the past six months.

On the EPV for a retirement, the employer will certify relevant dates, provide final payment information, and report retirement contributions submitted for additional payments. Instructions for submitting an EPV can be found in the *Ending Payroll Verification – Employer User Guide*, which is available on the ASRS website under the Employers tab.

Initially, the EPV is used to verify a member's termination date or the last date of ASRS membership in order to establish the effective date of retirement. Then, the payment information is used to determine final contributions and eligible compensation to be used in the benefit calculation. To accurately complete the EPV, please adhere to the following guidelines.

**Member Information** – For ASRS purposes, the termination date is the last date the member actually worked prior to retiring. Although some payroll systems list the following day (when the employee does not work) as the termination date, please use the last day worked as the termination date on the ASRS forms.

The last date of ASRS membership should be completed if the member is retiring without terminating employment (See Chapter 4: Membership – Working after Retirement Guidelines). The EPV must indicate **either** the termination date or the last date of ASRS membership; if the member is terminating prior to retirement, there is no difference between the termination date and the last date of ASRS membership.

**Total Salary** – List the total eligible compensation paid to the employee for any pay periods in the fiscal year they last worked. For example, if an employee retires December 31, 2012, list the total eligible compensation only for pay periods reported from July 1, 2012 to the last pay period for which they were paid.

**Regular (Base) Compensation** – List the regular wages and contributions submitted for the last three pay period ending dates, including any balance of contract payments. This provides the ASRS with information about contributions that may be or will be submitted but may not yet have posted to the member's account to ensure all eligible contributions are considered.

**Other Compensation** – List all payments, including incentive, leave payouts, performance (including educational Proposition 301 monies), or termination payments, whether paid in a lump sum or in installments over the past five years. This allows the ASRS to determine whether any contributions are eligible compensation for benefit calculation purposes. For example, if the retiree is a pre-1984 member, the ASRS needs to know that the payments were for termination pay and not regular salary in order to perform a 60- versus 36-month calculation. (See Chapter 5: Compensation – Compensation for Pre-1984 Members)

***NOTE: Any ineligible contributions will be returned to the employer. (See Chapter 6: Contribution Reporting – Contributions Submitted in Error and Excess Contributions and Excess Benefits in this chapter)***

The ASRS requires the EPV be submitted within ten business days of the retiree's termination date. We encourage employers to submit the EPV with any information they have available within that time frame. Understanding that subsequent payments or adjustments may be made to the retiring employee, employers may always resubmit an amended or updated EPV to identify any additional payments made to the retiree after the initial EPV is completed.

Upon receipt of accurate and completed required forms, the ASRS will issue a retirement check to a retiree in the beginning of the month following the first full month of retirement. The first full check will include payment from the retirement date through the month in which the first check is paid.

The retiree may receive an Estimated Benefit Check within ten days after the retirement date. Estimate checks will only be processed if all forms have been submitted in a timely manner. The benefit amount is calculated with the lowest possible compensation to prevent an inadvertent overpayment.

## Notes

## **Excess Contributions and Excess Benefits**

If an employer lists Other Compensation payments on the EPV, the ASRS will complete a 60-month average calculation for pre-1984 members. If the 60-month average with eligible termination and other payments included does not provide a greater benefit for the member than a 36-month calculation, or if the member is not eligible for the 60-month average (i.e., not a pre-1984 member), the ASRS will return to the employer both the member and employer contributions received for the payments. These are called “excess contributions.” The ASRS will only send the excess contributions to the employer. The employer should reimburse the employee through payroll adjustment procedures for the pre-tax amounts reported to the ASRS.

Because it may take several months for the ASRS to finalize a retirement benefit calculation, employers may receive excess contributions several months after an employee has terminated and retired. The excess contributions situation can be minimized by ensuring that such contributions are withheld only for eligible compensation and members. (See Chapter 5: Compensation – Payments Included and Payments Not Included in Compensation) For pre-1984 members, provide the member with as much information as possible regarding expected termination payments so that the member can provide the information to the ASRS when requesting an estimate of retirement benefits. An ASRS benefit advisor can take the information on the termination payment and advise the member of the effect on the benefit. The member should then inform the employer whether to withhold retirement contributions.

After the ASRS completes a retirement benefit calculation, it may be determined that the benefit amount exceeds IRC Section 415(b) limits, which prescribe the maximum amount that qualified pension plans, including the ASRS, may pay retirees. Generally, an “excess benefit” is the difference between the full amount of a member’s pension (as provided by state law) and the maximum benefit allowed under limitations imposed by the IRC Section 415.

If a retiree’s pension benefit exceeds the IRC Section 415 limit, any portion that the ASRS cannot pay directly to the retiree will be paid to the retiree’s most recent ASRS employer to distribute to the retiree. The ASRS will pay the member’s monthly retirement annuity up to the IRC Section 415(b) limit; the employer will pay the member any amount over the IRS limit after receiving a check from the ASRS excess benefit arrangement fund. The result is that the member will receive a full retirement benefit according to the ASRS benefit formula.

The former employer will be notified by the ASRS if they have a former employee in an excess benefit situation and will be provided additional instructions. Contact the Employer Relations Department with any questions about this program.

## **Cancelling or Suspending Retirement**

A member may cancel the retirement application within 30 days after the retirement date, or before the member's receipt of retirement benefits, whichever is later. This may be accomplished by written notification to the ASRS.

A retired member who returns to employment with an ASRS employer and meets membership criteria must suspend retirement. (See Chapter 4: Membership – Return to Work Violations) By returning to active membership, the member may increase future retirement benefits by adding credited service, increasing average monthly compensation if the new salary is higher, purchasing service time, or reaching normal retirement criteria or a higher multiplier.

The member may resume retirement status when the member again terminates employment or, if at a normal retirement age, reduces the work schedule to a level that does not meet the 20/20 criteria. The member must file a *Re-Retirement Application*.

The retirement annuity option must be in the same payment option form as the original benefit, except that:

- ❑ A member who originally retired before July 1, 2008 and who chose either a joint and survivor benefit option or a term certain option may elect to rescind that option in favor of a straight life annuity
- ❑ A member who originally retired on or after July 1, 2008 and who chose either a joint and survivor benefit option or a term certain option may elect to rescind that option in favor of a straight life annuity one time and only if the member's beneficiary has died or beneficiary status has been cancelled as a result of qualified domestic relations order
- ❑ A former retiree who has worked and contributed to ASRS for at least 60 months before re-retiring may elect any option

The member's retirement benefit will be recalculated to include:

- ❑ The additional service credited from the post-retirement active member period of service
- ❑ Any additional service credit purchased through the service purchase program
- ❑ A re-computation of the final average compensation, taking into consideration compensation paid during the post-retirement active member period of service
- ❑ A re-computation of the graded multiplier, as the new service credit may increase the multiplier
- ❑ A determination of normal retirement status or an early retirement reduction based on the member's attained age on the date resuming retired status

# Chapter 9: ADDITIONAL BENEFIT PROGRAMS

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The ASRS provides several benefits in addition to the lifetime retirement annuity.

## Long Term Disability Program

The ASRS oversees a long term disability (LTD) income program, which is intended to partially replace income lost during periods of total disability resulting from a qualifying injury or illness.

The program is funded by separate member and employer contributions and is administered by a contracted claims administrator. (See Appendix D: Historical Interest and Contribution Rates)

### Eligibility for LTD

Members who are employed by an ASRS employer and who are making contributions to the ASRS at the time they become disabled are eligible for the LTD benefit, subject to qualification.

The following members are **not** eligible for an LTD benefit:

- ❑ Members who became disabled before July 1, 1988
- ❑ Members who apply for and receive a refund of contributions (See Chapter 8: Leaving Employment)
- ❑ Members who are receiving a retirement benefit from the ASRS
- ❑ A participant who is initially hired on or after July 20, 2011, by an agency, department, board, or commission of the state, a university under the jurisdiction of the Arizona Board of Regents, the judicial branch (whose salary is paid through the Arizona Department of Administration), the Arizona Corporation Commission, or the legislature, before the 27th week of employment
- ❑ A participant who files an initial claim for disability benefits more than 12 months after the date of disability unless the participant shows ASRS good cause for filing late

If eligibility and all other requirements are met, LTD benefits for a covered disability generally commence following a six-month waiting period from the date of disability and are paid on a monthly basis.

## LTD Claim Process

Employers play a key role in facilitating the LTD Claim process. When an employee is unable to work due to an illness or injury:

- Inform the member about the LTD program. Refer the member to the *ASRS LTD Employee Brochure* found on the ASRS website under the Members tab and Long Term Disability link.
- When a member has been unable to work for two months, give the member the *Long Term Disability Employee Claim Packet*. The packet can be found on the secure employer area of the ASRS website or by contacting the ASRS Employer Relations Department. Do not wait until the six-month waiting period is complete; a delay in providing all required claim information will delay the payment of benefits.

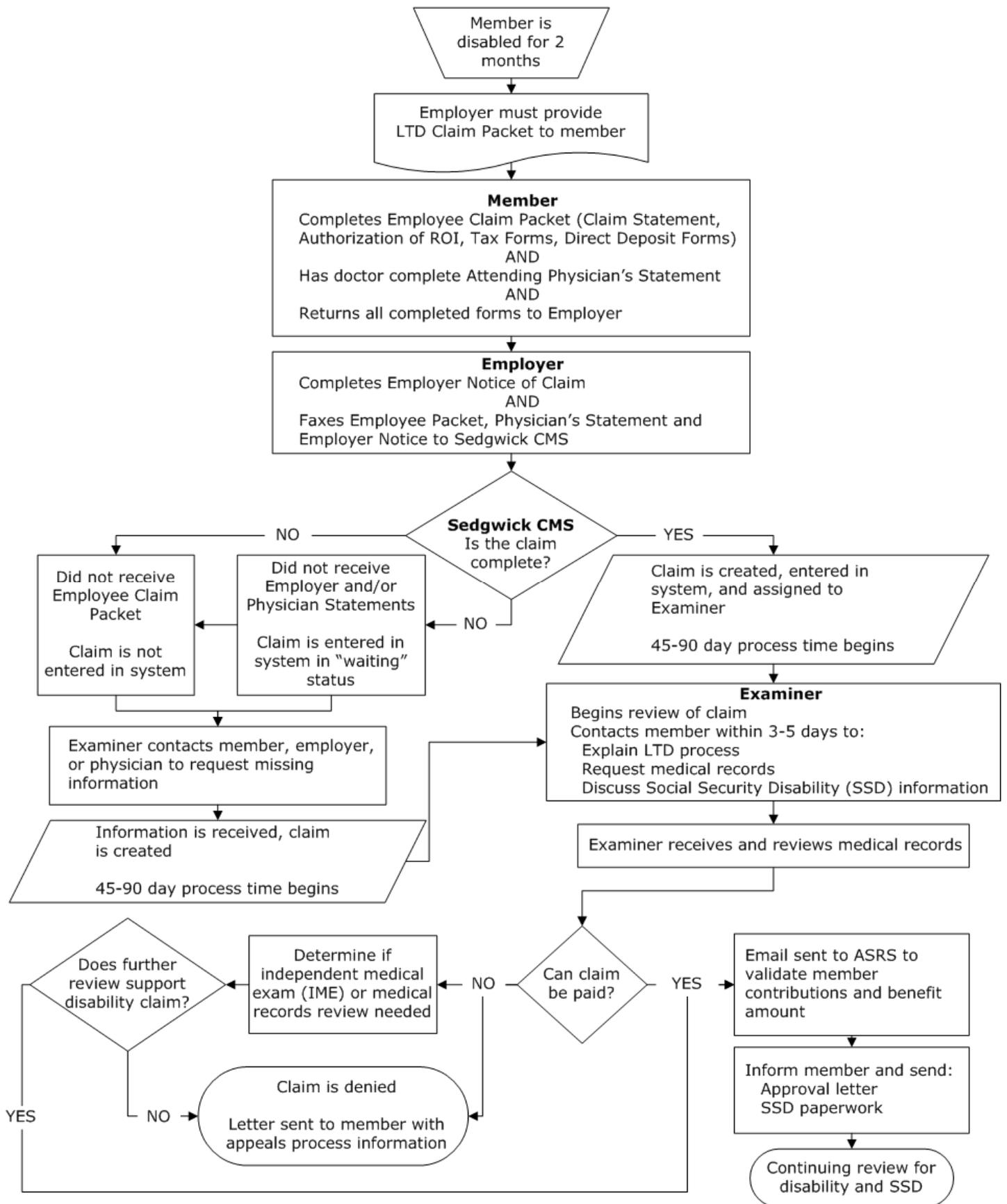
**NOTES:** *The employer is responsible for providing the ASRS LTD claim packet to the employee. The member cannot access these forms, and the ASRS and the LTD administrator will refer the member to the employer. If the member has already terminated employment, the ASRS employer for whom the member worked on the date of disability must provide the forms.*

*In some cases, members may be able to continue to work on limited duty or for a reduced number of hours, which may affect the waiting period. Members should refer to the ASRS LTD Employee Brochure or contact the ASRS Member Advisory Center for additional information.*

- Complete the *Employer Notice of Claim* packet. For instructions on submitting the claim, refer to the *ASRS LTD Plan Employer Guide* found on the ASRS website under the Employers tab and Employer LTD Information link. Attach the employee's job description and requirements form to supplement Part 2 of the packet.
- Submit both the completed employee and employer packets to the claims administrator. Direct any questions regarding completing the forms to the ASRS on-site claims administrator representative at 602-240-2133. **NOTE:** *The Employer Notice of Claim form must be signed by the authorized employer contact that is designated on file with the ASRS LTD administrator. To verify or change the contact information, contact the ASRS on-site administrator representative at 602-240-2133.*
- Respond promptly to requests for additional information from the claims administrator. Advise the administrator of any changes in the member's status.
- In the event the illness or injury influences a member to apply for retirement, refer the member to the ASRS Member Advisory Center to discuss LTD program participation or retirement options.

All decisions regarding eligibility, covered disabilities, and benefits that are payable are made by the contracted LTD claims administrator and may be appealed to the ASRS Board of Trustees.

## ASRS Long Term Disability Workflow



## Retiree Group Health Insurance

The ASRS administers a retiree group health insurance plan for members who are receiving a retirement or an LTD benefit. The ASRS program requires that participating providers accept all pre-existing conditions when an ASRS member is retiring or transferring from participation in a qualified ASRS employer group insurance plan.

The ASRS contracts with private insurance companies on an annual basis to provide coverage for medical and dental services. Contracted providers and coverage may change each year. The choice of providers and coverage are based on the member's county or state of residence and Medicare eligibility.

Retired and LTD members may elect the ASRS retire group health insurance program at retirement or within 31 calendar days of a qualifying event, such as the end of employer or COBRA coverage or at Medicare eligibility. The ASRS health insurance coverage becomes effective on the first day of the month following the date the ASRS receives all required enrollment information, unless the requested effective date is a later date.

***NOTE:*** *Members who are terminating coverage through their ASRS employer, including COBRA coverage, are encouraged to contact the ASRS 90 days prior to the termination date of their current coverage in order to meet ASRS processing timelines and to ensure a smooth transition to ASRS coverage.*

Eligible members may also elect to enroll for coverage or change their elections during an annual open enrollment period. The open enrollment period is generally in October; changes take effect on January 1 of each year.

The ASRS provides individual members with information regarding the ASRS group health insurance plan when a member attends an ASRS educational meeting prior to retirement, applies for a retirement benefit, or becomes eligible for an LTD benefit. Information is always available on the ASRS website under the Retirees tab and Health Insurance link or by contacting the ASRS Member Advisory Center.

In addition, prior to each open enrollment period, the ASRS provides all retired and LTD members with information regarding the different plans that will be offered in order to provide the opportunity to compare all of their options.

### **ASRS Health Insurance Premium Benefit**

The ASRS provides a health insurance premium benefit (subsidy or offset) to eligible retired and LTD members to help cover a portion of or to offset the cost of the member's insurance premiums. A percentage of the contributions employers submit are placed in a 401(a) Health Benefit Supplement account to provide funds

for the health insurance premium benefit. (See Appendix D: Historical Interest and Contribution Rates)

To be eligible for the benefit, the member must:

- ❑ Be receiving a retirement or LTD benefit; and
- ❑ Have at least five years of ASRS credited service; and
- ❑ Elect (purchase) insurance coverage through a group health insurance plan provided by an ASRS employer or through the ASRS retiree group health insurance program. A group health insurance plan provided by an ASRS employer is a program that includes a medical component (and may include other components such as a dental plan) and that is offered to all retirees and disabled members of that employer.

**NOTE:** For members who have elected insurance coverage through a group health insurance plan provided by an employer and offered to active members of that employer, see Six-month Reimbursement Program in this chapter.

The amount of the premium benefit that is payable is based on the member's years of credited service, the medical plan election of either single or family coverage, and whether any covered family members are eligible for Medicare. The premium benefit (offset) is the *lesser* of the premium benefit available or the premium amount. (A.R.S. § 38-783)

Years of Service	WITHOUT MEDICARE		WITH MEDICARE A & B		COMBINATIONS	
	Retiree Only	Retiree & Dependents	Retiree Only	Retiree & Dependents	Retiree & Dependents One with Medicare, the other(s) without	Retiree & Dependent with Medicare, other dependents without
5.0-5.9	\$75.00	\$130.00	\$50.00	\$85.00	\$107.50	\$107.50
6.0-6.9	\$90.00	\$156.00	\$60.00	\$102.00	\$129.00	\$129.00
7.0-7.9	\$105.00	\$182.00	\$70.00	\$119.00	\$150.50	\$150.50
8.0-8.9	\$120.00	\$208.00	\$80.00	\$136.00	\$172.00	\$172.00
9.0-9.9	\$135.00	\$234.00	\$90.00	\$153.00	\$193.50	\$193.50
10.0+	\$150.00	\$260.00	\$100.00	\$170.00	\$215.00	\$215.00

### Premium Benefit Process

The premium benefit amount to which a member may be entitled is intended to offset or reduce the full monthly medical and/or dental premiums a member pays. The ASRS does not pay the premium benefit directly to the member because the payments would be considered taxable income if paid in this manner.

The offset amount for the premium benefit is directly applied to the premiums for retired and LTD members who have coverage through the ASRS retiree group

health insurance plan. For example, when retired members receive their benefit check from the ASRS, the deductions for insurance premiums are reduced by the amount of the applicable premium benefit.

For retired and LTD members who have coverage through an ASRS employer group health insurance plan, there are two ways in which the premium benefit (offset) may be applied to the member's medical/dental costs: Premium Benefit Authorization and Six-Month Reimbursement Program. (See Health Insurance Premium Benefit Process workflow in this chapter)

### **Premium Benefit Authorization**

The Premium Benefit Authorization process is used to provide the premium benefit to ASRS retired and LTD members who have coverage under the employer's group plan that is offered to *all retirees and disabled members* of the employer or who have COBRA coverage. The employer provides coverage information to the ASRS about each participating member by completing the following forms: (See sample forms at the end of this section)

- **Health Insurance Premium Benefit Authorization form.** This form authorizes the ASRS to pay the health insurance premium benefit to the former ASRS employer of eligible new retirees and new LTD participants who have insurance coverage provided by that employer.

The form is:

- Completed once, upon initial enrollment in the coverage
- Completed and submitted by the employer

- **Change/Deletion form.** This form is used to report any type of change in coverage after the initial *Authorization* form has been completed due to:
  - Open enrollment elections, especially at positive open enrollments
  - Changes in plan insurance providers
  - Qualified life events, such as dropping/adding dependents, death of member, loss of coverage

The form is:

- Completed within 30 days of a change in coverage
- Completed and submitted by the employer

- **ASRS Employer Health Insurance Premium/Plan Breakdown Table Survey.** The completed survey will provide the ASRS with information about the plans/rates available to retired and LTD members.

This form is:

- Emailed to employers each plan year by the ASRS
- Completed and submitted to the ASRS by the employer annually or 30 days prior to the effective date of plan changes and open enrollments

The ASRS will review and process the information provided by the employer. At the end of each month, the employer will receive a report (HI0460) that lists all retired and LTD members who have elected retired or COBRA coverage through the employer, as well as the premium benefit (offset) dollar amount to be applied to each member's monthly premiums. Along with the report, the ASRS will send a payment for the total amount of the premium benefit for all eligible members to the employer. Employers must handle the payment or application of the premium benefit offset for each member according to the employer's rules and procedures.

Information for members who are added to or who have changes to coverage is processed on or before the 10th of each month and will appear on the report for that month. Any forms that are received by the ASRS after the 10th will appear on the following month's report.

**NOTE:** *Employers should review the HI0460 report each month for accuracy. If there are errors, such as overpayments or the omission of eligible members, contact the ASRS Health Insurance Accounting Department in the Financial Services Division.*

#### **Six-Month Reimbursement Program**

The six-month reimbursement process is used to provide the premium benefit to some eligible retired and LTD members who have coverage under an employer's group plan that is offered to *all active members* of the employer. However, a member who retired or became disabled on or after August 2, 2012, and who has coverage (either as a policy holder or as a dependent) on an employer's group plan for *active members is not* eligible for the premium benefit unless the plan is not subsidized by the employer. An employer-subsidized plan means a portion of the total premiums is paid by the employer, but does not necessarily mean a plan in which the employer uses blended rates to determine the total premium. (A.R.S. § 38-783, Laws 2012, Chapter 362 (HB2745))

**NOTE:** *If the recipient remains on the employer's sponsored plan for retired employees, including COBRA, the Health Insurance Premium Benefit Authorization form should be used instead of the Reimbursement of Medical and/or Dental Cost form.*

To administer the reimbursement program, the member and employer must complete the following form:

- **Reimbursement of Medical and/or Dental Cost form.** This form is used for eligible retired and LTD members under the following conditions:
  - The member is currently receiving a pension or LTD benefit from the ASRS;  
**and**
  - The member retired or became disabled before August 2, 2012, **or**

- The member retired or became disabled on or after August 2, 2012, *and* the plan is not subsidized by the employer, **and**
- The member has medical and/or dental coverage as a dependent on an ASRS employer's active employee group insurance plan; **or**
- The member has medical and/or dental coverage as a policy holder on an ASRS employer's active employee group insurance plan; **and**
- The member has out-of-pocket expenses for medical and/or dental premiums.

The form is:

- Completed by both the employer and the retired/LTD member
- Submitted two times per year, to cover a six-month period, and within 60 days after the period ends:
  - July – to cover January through June
  - January – to cover July through December

At the end of a six-month period, the ASRS will review and verify the information to determine the premium benefit (offset) for which the retired/LTD member is eligible. Within 60 days, the ASRS will send a payment directly to the member for the total amount of the premium benefit. Keep in mind that the 60 days processing timeline does not begin until after the end of a six-month period. The ASRS will begin processing any forms received only after a six-month period has ended (i.e., beginning January 1 or July 1).

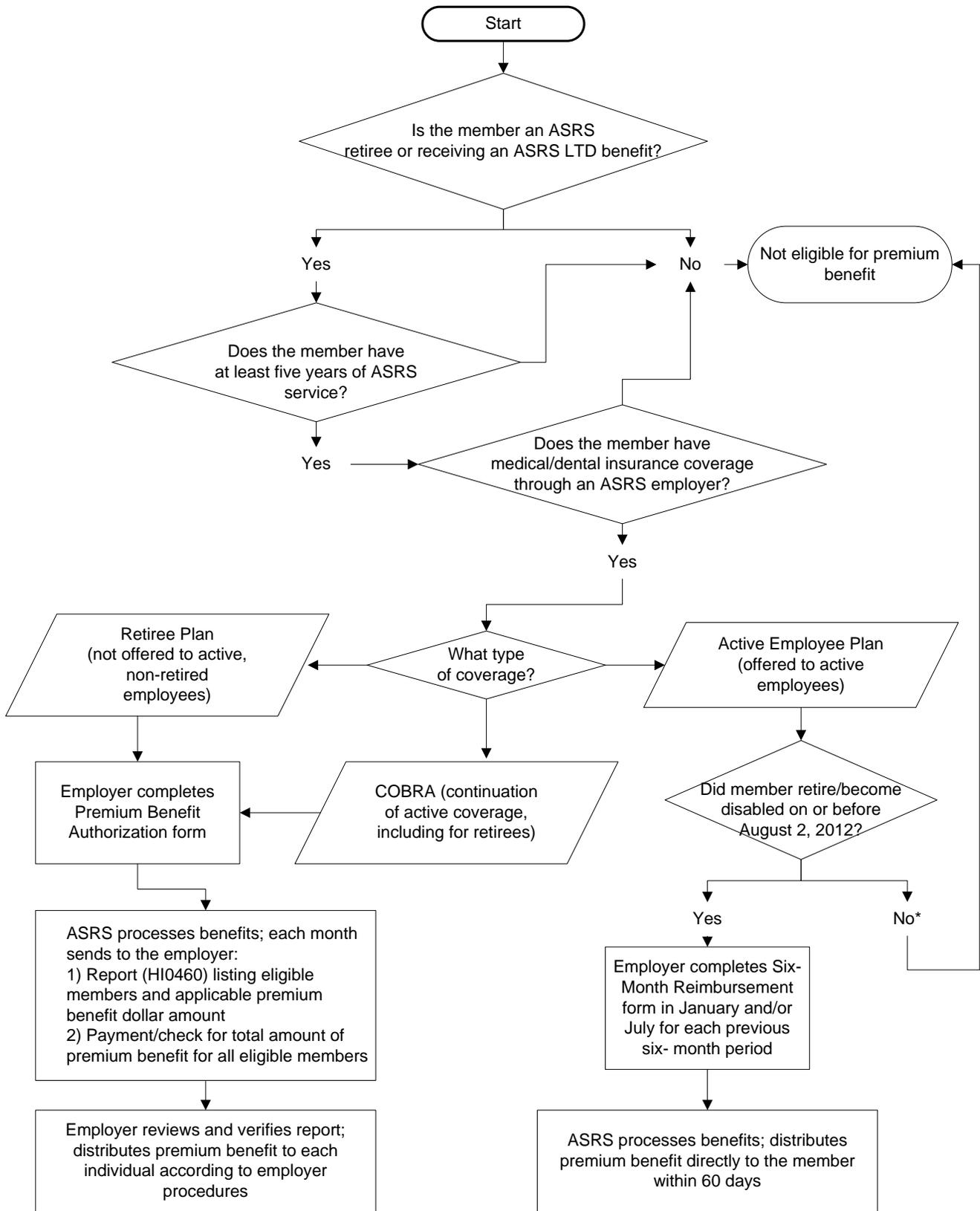
### **Optional Premium Benefit Program**

Members may, at the time of retirement, select an option that will allow the health insurance premium benefit to continue to an eligible beneficiary upon the retired member's death. This Optional Premium Benefit Program allows an ASRS retiree to receive a reduced premium benefit in exchange for adding a contingent annuitant, who is participating or eligible to participate in the retiree's health insurance plan, and who would be eligible to receive all or a portion of the reduced monthly premium benefit upon the member's death.

***NOTE: Retirees who have elected the Optional Premium Benefit are indicated in bold italics on the HI0460 monthly report.***

## **Notes**

# ASRS Health Insurance Premium Benefit Process



\* A member who retired or became disabled on or after August 2, 2012, and who has coverage (either as a policy holder or as a dependent) on an employer's group plan for *active* members is *not* eligible for the premium benefit unless the plan is not subsidized by the employer. An employer-subsidized plan means a portion of the total premiums is paid by the employer, but does not necessarily mean a plan in which the employer uses blended rates to determine the total premium. (A.R.S. § 38-783)

# Sample Health Insurance Premium Benefit Authorization form



## ARIZONA STATE RETIREMENT SYSTEM (ASRS) HEALTH INSURANCE PREMIUM BENEFIT AUTHORIZATION

PLEASE PRINT  
 COMPLETE AND SEND TO:  
 ASRS Member Services  
 PO Box 33910  
 Phoenix, AZ 85067-3910  
 Phoenix (602) 240-2000  
 Tucson (520) 239-3100  
 Toll-free (800) 621-3778  
 TTY (602) 240-5333  
 Fax (602) 266-4082  
 www.azasrs.gov

Disclosure of member's Social Security number is mandated by Section 6109 of the Internal Revenue Code. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account and to inform the Internal Revenue Service of distributions and withholdings with respect to the individual's account.

SECTION 1 – Member Information			
Social Security Number <b>000-00-0000</b>	Name (Last) <b>Doe</b>	(First) <b>John</b>	(Middle Initial) <b>Q</b>
Mailing Address <b>1212 Main St</b>		Daytime Telephone Number <b>(000) 000-0000</b>	
City <b>Phoenix</b>	State <b>AZ</b>	ZIP <b>00000</b>	Date of Birth (MM/DD/YYYY) <b>01/01/1945</b>

SECTION 2 – Status Information
Indicate participant status (check <input checked="" type="checkbox"/> one): <input checked="" type="checkbox"/> Arizona State Retirement System Retiree <input type="checkbox"/> Long Term Disability Plan Participant
Retirement Effective Date: <b>12/01/2011</b> Disability Effective Date: _____

SECTION 3 – Information for Coverage					
	Last Name	First Name	Social Security Number	Birth Date (MM/DD/YYYY)	Medicare #
Member	<b>Doe</b>	<b>John</b>			<b>000000000A</b>
Dependent	<b>Doe</b>	<b>Jane</b>	<b>111-11-1111</b>	<b>02/01/1955</b>	<b>N/A</b>
Dependent					
Dependent					

SECTION 4 – Medical Plan	Section 5 - Dental Plan
Carrier Name <b>Cigna</b>	Carrier Name <b>Delta Dental</b>
Medical Premium Amount <b>\$ 450.00</b>	Dental Premium Amount <b>\$ 32.00</b>

SECTION 6 – Effective Date Coverage to Begin
Date (MM/DD/YYYY): <b>12/01/2011</b>

SECTION 7 – Employer Signature	
Employer Name <b>City in Arizona</b>	Telephone Number <b>(000) 000-0000</b>
Employer Liaison Name <b>Jane Smith</b>	E-Mail Address <b>Jane.smith@city.gov</b>
Employer Liaison Signature <i>Jane Smith</i>	Date <b>12/15/2011</b>

Health Insurance Premium Benefit Authorization



# Sample Change/Deletion form



## ARIZONA STATE RETIREMENT SYSTEM (ASRS) CHANGE / DELETION FORM

PLEASE PRINT  
 COMPLETE AND SEND TO:  
 ASRS  
 PO Box 33910  
 Phoenix, AZ 85067-3910

Phoenix (602) 240-2000  
 Tucson (520) 239-3100  
 Toll-Free (800) 621-3778  
 TTY (602) 240-5333  
 Fax (602) 266-4082  
 www.azasrs.gov

Disclosure of member's Social Security number is mandated by Section 6109 of the Internal Revenue Code. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account and to inform the Internal Revenue Service of distributions and withholdings with respect to the individual's account.

### SECTION 1 – Member Information

Social Security Number <b>000-00-0000</b>		Member Name (Last) <b>Doe</b>	(First) <b>John</b>	(Middle Initial) <b>Q</b>
Mailing Address <b>1212 Main St</b>			Daytime Telephone Number <b>(000) 000-0000</b>	
City <b>Phoenix</b>	State <b>AZ</b>	ZIP <b>00000</b>	Date of Birth (MM/DD/YYYY) <b>01/01/1945</b>	

### SECTION 2 – Change

Change Member Coverage
  Change Medicare Status  
 Add Dependent Information  
 Change Dependent Coverage
  Other \_\_\_\_\_

### SECTION 3 – Delete

Delete Medical for Member
  Delete Medical for Dependent  
 Delete Dental for Member
  Delete Dental for Dependent  
 Death of Member Date: \_\_\_\_\_
  Death of Dependent Date: \_\_\_\_\_  
 Delete all Medical and Dental Coverage for Member and Dependents

### SECTION 4 – Information for Coverage

	Last Name	First Name	Social Security Number	Birth Date (MM/DD/YYYY)	Medicare #
Member	<b>Doe</b>	<b>John</b>			<b>000000000A</b>
Dependent	<b>Doe</b>	<b>Jane</b>	<b>111-11-1111</b>	<b>02/01/1955</b>	<b>N/A</b>
Dependent					
Dependent					

Comments:

Employer <b>City in Arizona</b>	Employer Liaison Name <b>Jane Smith</b>
Effective Date <b>01/01/2012</b>	Phone Number <b>(000) 000-0000</b>
Old Medical Premium <b>\$450.00</b>	Old Dental Premium <b>\$32.00</b>
New Medical Premium <b>\$450.00</b>	New Dental Premium <b>\$15.00</b>

Change/Delete Form



# Sample Employer Health Insurance Premium/Plan Breakdown Table

## ARIZONA STATE RETIREMENT SYSTEM

### EMPLOYER HEALTH INSURANCE PREMIUM / PLAN BREAKDOWN TABLE



**Please print all information:**

Employer Name \_\_\_\_\_  
 Contact Person \_\_\_\_\_  
 Phone Number \_\_\_\_\_  
 Fax Number \_\_\_\_\_  
 E-mail Address \_\_\_\_\_

Employer ID# \_\_\_\_\_ Number is shown on 460 report  
 Open Enrollment Begins \_\_\_\_\_  
 Open Enrollment Ends \_\_\_\_\_  
 Effective Date \_\_\_\_\_ What date will this new rate/plan begin?

Example Sheet

List only one carrier/plan per sheet (form). Use separate sheets for additional carriers, medical or dental plans

List retiree rate & only one family category/rate on each line. Family rate is amount in excess of the retiree rate.

		Please indicate if plan is (or is not) a medicare plan by marking Y or N									
Is this a COBRA PLAN <input type="checkbox"/> or a MEDICAL PLAN <input checked="" type="checkbox"/> or a DENTAL PLAN <input type="checkbox"/>	Plan Type	Y N	M E D I C A R E  Retiree Only Premium	Y N	M E D I C A R E  Family: Either Spouse or One Child Premium	Y N	M E D I C A R E  Family: Children Only Premium	Y N	M E D I C A R E  Family: Spouse and Children Premium	Total Premium for row	Service Area (Needed for HMO Plans Only) Where in the State do you, as an employer, offer an HMO plan to your retirees?
(who is?) Insurance Carrier and Plan Name  <i>Alpha Medical Plan</i>	HMO PPO POS Indem										ONLY List the Counties if your HMO plan is available in specific County(ies), otherwise put "Entire State"
1 Retiree (Not-Medicare Eligible)	HMO	N	375.00							375.00	Entire State
2 Retiree (Medicare Eligible)	HMO	Y	235.00							235.00	Entire State
3											
4 Retiree + Spouse	HMO	N	375.00	N	200.00					575.00	Entire State
5											
6 Retiree + Children	HMO	Y	235.00			N	200.00			435.00	Entire State
7											
8 Retiree + Spouse + Child	HMO	N	375.00					N	350.00	725.00	Entire State

Use a separate sheets for each medical, dental or COBRA plan that you offer.

Revised 1/2008

# Sample Reimbursement of Medical and/or Dental Cost form



## ARIZONA STATE RETIREMENT SYSTEM (ASRS) REIMBURSEMENT OF MEDICAL AND/OR DENTAL COST (6-MONTH REIMBURSEMENT PROGRAM)

PLEASE PRINT

COMPLETE AND SEND TO:  
ASRS – Health Ins. Dept.  
PO Box 33910  
Phoenix, AZ 85067-3910

Phoenix (602) 240-2000  
Tucson (520) 239-3100  
Toll-Free (800) 621-3778  
Fax (602) 266-4082  
www.azasrs.gov

Disclosure of member's Social Security number is mandated by Section 6109 of the IRC. The ASRS will use Social Security numbers only to obtain information about an individual's ASRS account and to inform the IRS of distributions and withholdings with respect to the individual's account.

### SECTION 1 – Retired/LTD Participant Member Information – TO BE COMPLETED BY THE MEMBER

Social Security Number <b>000-00-0000</b>	Name (Last) <b>Smith</b>	(First) <b>John</b>	(Middle Initial) <b>J</b>
Mailing Address <b>1000 Central St</b>		Daytime Telephone Number ( <b>000</b> ) <b>000-0000</b>	
City <b>Phoenix</b>	State <b>AZ</b>	ZIP <b>85000</b>	Date of Birth (MM/DD/YYYY) <b>04/01/1950</b>

### SECTION 2 – Retired/LTD Participant Member Status Information – TO BE COMPLETED BY THE MEMBER

A. Indicate member status with the ASRS (check <input checked="" type="checkbox"/> only one):		B. Indicate member status with the employer (check <input checked="" type="checkbox"/> only one):	
<input checked="" type="checkbox"/> Arizona State Retirement System retiree		<input checked="" type="checkbox"/> Return to work retiree on active insurance	
<input type="checkbox"/> Long Term Disability Plan participant		<input type="checkbox"/> Long Term Disability participant on active insurance	
(Medicare Eligible? <input type="checkbox"/> Yes <input type="checkbox"/> No)		<input type="checkbox"/> Dependent on active insurance	

### SECTION 3 – Insurance Coverage Information – TO BE COMPLETED BY THE EMPLOYER

	Last Name	First Name	Social Security Number	Birth Date (MM/DD/YYYY)	Effective Date of Coverage
Policy Holder	<b>Smith</b>	<b>John</b>	<b>000-00-0000</b>	<b>04/01/1950</b>	<b>07/01/2011</b>
Dependent					
Dependent					
Dependent					

### SECTION 4 – Six-Month Reimbursement Totals (Jan. to June OR July to Dec.) – TO BE COMPLETED BY THE EMPLOYER

Date (List each MM/YYYY)	Total Medical Plan Premium Per Month	Total Dental Plan Premium Per Month	Employee Out-of-Pocket* Medical Premium Per Month	Employee Out-of-Pocket* Dental Premium Per Month	Total Employee Monthly Out-of-Pocket* Premium Per Month
<b>07/2011</b>	<b>\$796.14</b>	<b>\$51.60</b>	<b>\$46.16</b>	<b>\$49.98</b>	<b>\$96.14</b>
<b>08/2011</b>	<b>\$796.14</b>	<b>\$51.60</b>	<b>\$46.16</b>	<b>\$49.98</b>	<b>\$96.14</b>
<b>09/2011</b>	<b>\$796.14</b>	<b>\$51.60</b>	<b>\$46.16</b>	<b>\$49.98</b>	<b>\$96.14</b>
<b>10/2011</b>	<b>\$1,194.21</b>	<b>\$77.40</b>	<b>\$69.24</b>	<b>\$74.97</b>	<b>\$144.21</b>
<b>11/2011</b>	<b>\$796.14</b>	<b>\$51.60</b>	<b>\$46.16</b>	<b>\$49.98</b>	<b>\$96.14</b>
<b>12/2011</b>	<b>\$796.14</b>	<b>\$51.60</b>	<b>\$46.16</b>	<b>\$49.98</b>	<b>\$96.14</b>
<b>*Out-of-Pocket Premium means payroll deductions per month</b>					<b>Total</b>
					<b>\$624.91</b>

### SECTION 5 – Employer Representative Information – TO BE COMPLETED BY THE EMPLOYER

Name of Employer <b>City of Arizona</b>	Employer Phone Number <b>(000) 000-0000</b>	E-Mail Address <b>j.public@cityofarizonaaz.gov</b>
Employer Representative Name (Print) <b>Joe Public</b>	Employer Representative Signature <b>Joe Public</b>	Date <b>January 3, 2012</b>



## Survivor Benefits

A survivor benefit is payable upon the death of an active, inactive, or retired member. The basic survivor benefit of an active or inactive member equals the member's contributions and the employer contributions, interest accrued to the date of payment, plus any monies paid by the member for the purchase of service. Other calculations may be used to determine the value of the benefit if the member was eligible for retirement and other criteria are met. If the member was retired, the survivor benefit will depend on the retirement option chosen by the member.

**NOTE:** *The amount of employer contributions excludes payments made by the employer to correct a Contributions Not Withheld error unless the member also made the required payments. (See Chapter 6 – Contributions Not Withheld) The employer's contributions remain in the trust fund.*

The survivor may be eligible to receive an annuity or may receive a lump sum payment, depending on different options and factors. The survivor may also be eligible for ASRS group health insurance benefits.

The ASRS will pay the survivor benefit to the beneficiary that is on record with the ASRS. The member's beneficiary designation form must be on file with the ASRS prior to the date of death. In the event of the member's death and no valid beneficiary designation is on file with the ASRS, the ASRS will pay the survivor benefit to the member's surviving spouse, children, parents, or estate (in that order) according to the laws of the State of Arizona. (A.R.S. § 38-762) Employers should encourage employees to keep their ASRS beneficiary designations current; failure to do so may cause delay in payment.

### Notification

When an employer learns of the death of an employee or former employee, the employer may advise the survivor to notify the ASRS Member Advisory Center. Employers may also notify the ASRS and provide the following information:

- Member's name
- Member's Social Security number
- Member's date of death
- The name and contact information of the person providing notification, in the event additional information is needed

The ASRS will complete a review of the member's account and will send a packet to the beneficiary on file. The packet will include survivor benefit eligibility and payment options, an application to request payment, and a list of documents, including a certified death certificate, required for payment.

If the ASRS received contributions for the member within the past 90 days, the employer must complete an *Ending Payroll Verification* (EPV) for a survivor benefit. An authorized employer representative who has the Ending Payroll Verification Specialist role may log in to the secure employer account on the ASRS website to view and submit the EPV to the ASRS. Employers have the ability to access reports that show a list and the status of all requests that are current and that have been submitted within the past six months.

On the EPV for a survivor benefit, the employer will certify relevant dates, provide final payment information, and report retirement contributions submitted for additional payments. Instructions for submitting an EPV can be found in the *Ending Payroll Verification – Employer User Guide*, which is available on the ASRS website under the Employers tab.

## **Permanent Benefit Increase**

The Permanent Benefit Increase (PBI) may provide post-retirement increases to retired and disabled members (if disability benefits began before July 1, 1996). Although the purpose of a PBI is to help mitigate the effects of inflation on retirement income, it is not tied to the federal Cost of Living Index; Arizona statute determines whether a PBI may be granted at the beginning of each fiscal year. (A.R.S. § 38-767)

Funds for a PBI are generated when the ASRS investment return exceeds the actuarial assumed rate of return on ASRS investments (currently eight percent) over a rolling 10-year period. In that case, the ASRS trust fund would be considered to have excess earnings. When excess earnings are available, a PBI is payable to all ASRS retired members, beneficiaries of deceased retired members, and eligible LTD members who were receiving benefits on or before July 31 of the previous calendar year. Because excess earnings are not guaranteed, a PBI is also not guaranteed to be available every year.

When payable, although the total amount available for the PBI is determined as a percentage of retired member benefits, each individual retired member receives a dollar amount per year of service credit. The PBI is designed in this manner to reward length of service rather than compensation amounts. The annual amount payable to a member is the dollar amount multiplied by the member's accrued service credit at retirement. Once granted, a PBI amount becomes a permanent increase to the member's monthly base benefit and cannot be taken away or reduced.

The ASRS may provide an additional PBI (enhanced PBI) to some retired members who have at least 10 years of service and have been retired from the ASRS for five or more years. Statute directs that any money that may be held in reserve for future PBIs earns eight percent interest; the accrued interest is used to fund an enhanced PBI based on the number of years a member has been retired.

The ASRS notifies affected members at the end of each fiscal year as to whether a PBI will be added to the monthly retirement benefit.

## Member Account Information

Members may view up-to-date information about their account at any time by logging in to their secure ASRS member account. This can be done directly from the ASRS website homepage by clicking on the Check Your Account...Login Here link.

**NOTE:** *A member may not be able to access the secure account if the ASRS does not have valid personal data on file for the member. Without the information provided on an ASRS enrollment, the ASRS cannot estimate future benefits. Have the member complete an online ASRS enrollment or contact the ASRS Member Advisory Center to provide the required information to the ASRS.*

The following information is available on a member's account:

- Personal and beneficiary data currently on file. It is important for members to keep the ASRS informed of any changes to name, home and email address, or beneficiary. Changes may be made to all of this information via the ASRS website through the member's secure account or by downloading the appropriate form.
- Account information, including the contributions and credited service posted to the account, new total account balances and current fiscal year activity. The account balance only shows the member contributions. Including exact employer contribution dollar amounts in the account information may cause confusion. For example, some members receive some or a portion of employer contributions if they request a refund while others do not. (See Chapter 8: Leaving Employment – Leaving Employment before Retirement) Other benefits, such as retirement benefits, are not dependent on precise employer contribution amounts.
- An estimate of the member's future retirement benefit. This information, based on information on record with the ASRS as well as other assumptions, estimates an amount based on the earliest normal retirement date. A member may enter different data to compare different scenarios and different possible future benefits.
- An estimate of the member's refund benefit in the event the member leaves ASRS employment and applies for a refund of contributions

Members should carefully review their account information. If they believe any of the information is incorrect, they should contact the ASRS Member Advisory Center.

**NOTE:** *Beginning in 2012, in lieu of mailing an annual statement of member account information, the ASRS will send a postcard encouraging members to log in to view their personal account information online.*

## **ASRS Benefits and Divorce**

Because the State of Arizona is a community property state, the ASRS retirement account of a member who is married while actively contributing may be considered a "community" asset and subject to the laws relating to the equitable distribution of marital property between a spouse and a former spouse in the event of a divorce.

A court approved order, called a "domestic relations order" (DRO), directs the ASRS how to divide a member's current or future retirement benefit or refund. In order for the ASRS to comply with any court order, the ASRS must receive and approve the language of the DRO before any benefits can be divided and processed. Members should contact the ASRS Member Advisory Center to receive the requirements for an acceptable DRO, as it pertains to ASRS benefits, and for any divorce-related questions or information.

In the event of a divorce decree, the ASRS will automatically nullify the divorced spouse as a beneficiary. The member should select a new beneficiary upon divorce, even if it is to rename the former spouse as a beneficiary.

## **Social Security and Medicare**

The federal government provides Social Security benefits, which are separate from ASRS benefits. Social Security and state retirement benefits, along with the member's personal savings, are each considered essential components of a member's total post-retirement income requirements.

### **Social Security Coverage**

Public employees were not provided Social Security coverage when the Social Security Act was enacted in 1935. Beginning in 1951, each state was authorized to enter into a voluntary agreement with the federal government to provide Social Security coverage to employees of the state. The state could then modify this agreement to extend coverage to political subdivisions of the state. This type of public employer agreement is termed a Section 218 agreement because it is authorized by Section 218 of the Social Security Act.

The State of Arizona entered into a Section 218 agreement effective June 29, 1951. Since then, most political subdivisions have come under the state's umbrella for Social Security coverage and entered into such agreements. When the ASRS was established in 1953, the State adopted Section 218 coverage as an eligibility requirement for employer participation in the ASRS. (See Chapter 4: Membership – Employer Participation Agreements)

Section 218 provides two types of exclusions from Social Security coverage: mandatory and optional. These exclusions identify positions or certain types of services that are performed by individuals that may not participate in Social Security under the agreement. Each ASRS employer has a Section 218 agreement. Employers should refer to their Section 218 agreement to learn which

exclusions apply to their employees and visit the Social Security Administration website pages for State and Local Government Employers, at <http://ssa.gov/slge/> for more information. If you have questions regarding coverage or if you would like to obtain a copy of your Section 218 agreement, contact the ASRS Employer Relations Department.

Positions that are specifically excluded from coverage under the provisions of Section 218 are not subject to Social Security withholding and deductions *under those provisions*. However, the Omnibus Budget Reconciliation Act of 1990 (OBRA '90) requires that any public employee not included by a Section 218 agreement and not covered by a comparable retirement plan **must** be covered for Social Security. Therefore, the employer may have to deduct Social Security under OBRA '90 for an employee who is in a position excluded from the provisions under Section 218.

Public employees who contribute to Social Security may be eligible to receive a monthly benefit when they retire or become disabled. For information about the benefits, visit the Social Security website at [www.ssa.gov](http://www.ssa.gov).

### **Medicare Coverage**

The Medicare program, enacted by the U.S. Congress in 1965, provides health insurance coverage for people age 65 and older, people under age 65 who have certain disabilities, and people of all ages with permanent kidney failure requiring dialysis or transplant.

As with Social Security, Medicare taxes are levied on both the state and political subdivisions and its employees. Employees covered under a Section 218 agreement for Social Security are also automatically covered by Medicare.

Positions that are specifically excluded from coverage under the provisions of Section 218 are not subject to Medicare taxes *under those provisions*. However, the Omnibus Budget Reconciliation Act of 1985 (OBRA '85) made state and local employees hired after March 31, 1986 subject to mandatory Medicare coverage, unless specifically excluded by law. This means public employees hired after that date must be covered for Medicare - even employees in positions, such as fire or police positions, that are typically excluded from a Section 218 agreement.

Employees who were continuously employed with a public employer prior to April 1, 1986, and who were not included in a Section 218 agreement remain exempt from both Social Security and Medicare taxes. An employer's Section 218 agreement may be modified to provide Medicare-only coverage for employees who meet these criteria, who are members of a public retirement program, and who are not covered by mandatory Medicare.

For more information about Medicare benefits, visit the Medicare website at [www.medicare.gov](http://www.medicare.gov).

## **ASRS Responsibilities**

The ASRS has been designated to represent the State of Arizona as the State Social Security Administrator in managing the Social Security agreement under the provisions of Section 218. Acting in this capacity, the State Social Security Administrator may approve new agreements to extend Social Security and/or Medicare coverage under the Section 218 to political subdivisions of the state.

The State Social Security Administrator may also approve certain modifications to the state's or any political subdivision's agreement to change the provisions of the agreement. For example, if an agreement previously excluded a position or group of employees, the employer may later choose to cover the position by modification of the agreement. The employer may not choose to exclude positions already covered.

Contact the State Social Security Administrator at the ASRS External Affairs Division for more information.

## **University and Community College Optional Retirement Programs**

The Arizona State Legislature created the University Optional Retirement Program (ORP) effective January 1, 1975 pursuant to A.R.S. § 15-1628. Administrators, academic and service professionals, and faculty who meet membership criteria are required to participate in a retirement system but may choose to participate in either the ASRS or the ORP.

Per the Board of Regents' rules, ORP eligible employees have a period of 30 days from the date they first become eligible for the ORP to make an election and complete the necessary enrollment requirements. If a retirement plan election is not made within the 30-day election period, retirement plan participation will default to the ASRS. The election is irrevocable as long as the employee remains in an ORP eligible position and is continuously employed within the university system.

In 1995, the legislature allowed community college districts to also establish an ORP pursuant to A.R.S. § 15-1451, if approved by their board of directors. If a retirement plan election is not made within 30 days of the employee's hire date or within 90 days of a district's adoption of an ORP, retirement plan participation will default to the ASRS. The election is irrevocable as long as the employee remains in an ORP eligible position and is continuously employed within the community college district.

Any monies on account at the ASRS for members who become eligible for and elect the university ORP remain on account at the ASRS until the member terminates employment and applies for an ASRS benefit. Any member monies on account at the ASRS for members who become eligible for and elect a community

college district ORP must be transferred to the community college ORP within 90 days of election.

There are some circumstances, such as dual employment, where a member may be eligible or required to participate in both an ORP and the ASRS. Please contact the ASRS Employer Relations Department to determine eligibility for participation in the ASRS.

## **Supplemental Savings Plans**

The ASRS offers a voluntary Supplemental Retirement Savings Plan (SRSP) and a voluntary Supplemental Salary Deferral Plan (SSDP) that participating employers may choose to offer to their employees as a separate and additional way to save for retirement. Both the SRSP and the SSDP are managed by contracted administrators.

The SRSP is qualified under Section 401(a) of the Internal Revenue Code; the SSDP is qualified under Sections 403(b) and 457(b). Both plans allow eligible members to contribute tax-deferred money into an account that can be drawn upon in retirement.

ASRS members are eligible to participate in either or both of these plans only if their employer adopts the plan(s). All ASRS participating employers are eligible to select an SRSP and/or SSDP except for the State of Arizona and the state universities.

Additional information about these plans is available on the ASRS website, by selecting the Members tab and the Supplemental Plans link. Questions should be directed to the listed plan administrator.

## **Notes**

# Appendices

## Appendix A: Defined Benefit versus Defined Contribution Retirement Plans

Many questions about the ASRS arise because individuals misunderstand the distinctions between different types of retirement plans. Generally, there are two types of retirement plans an employer may offer to its employees: a defined benefit plan and a defined contribution plan. The ASRS retirement plan is a defined benefit plan.

Retirement systems for public employees represent a considerable portion of the pensions in the United States. There is much discussion in both the public and private sector as to which plan structure is better for public employees and employers. The following provides a brief outline of the principal characteristics of each plan type.

### Defined Benefit Plans

Almost all public employees participate in a retirement plan in the United States and 90 percent are covered by a Defined Benefit (DB) plan.<sup>1</sup> In Arizona, the majority of public employees are members of a DB plan. Although each retirement system may have a unique plan design and benefit structure, under a DB plan:

- ❑ The retirement benefit is determined by a formula that includes years of service and a percentage of average compensation.
- ❑ A formula determines the benefit and the member can adequately predict future benefit amounts by using certain assumptions.
- ❑ The calculated retirement benefit is guaranteed for life; the employer's obligation is not complete until the last benefit recipient dies. In Arizona, benefits are guaranteed under the Arizona Constitution.
- ❑ The employer and the employee must contribute an amount sufficient to deliver the guaranteed retirement benefit; the employer's ultimate cost is equal to the total benefits paid out minus trust fund earnings on investments and employee contributions.
- ❑ The member cannot and does not need to make additional contributions to the retirement fund because the member's account balance does not affect the retirement benefit.
- ❑ The investment risk is borne by the plan and participating employers. The greater the plan's investment earnings, the lower the employer (and the employee) contribution rate; the less the fund earns, the more the employer (and the employee) must contribute.

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<sup>1</sup> Anderson, Gary W. & Brainard, Keith, (2004). *Profitable Prudence: The Case for Public Employer Defined Benefit Plans*, Pension Research Council Working Paper, The Wharton School, University of Pennsylvania. (<http://www.nasra.org/resources/economic/AndersonBrainard.pdf>)

## Defined Contribution Plans

Defined Contribution (DC) plans are more prevalent in the private sector. Under a DC plan:

- ❑ The retirement benefit depends on the employee's contributions, account balance at the time of retirement, and investment performance.
- ❑ The employee's benefit cannot be easily predicted before retirement.
- ❑ The length of time a retirement benefit lasts is dependent upon the individual's own investment decisions and use of the investments throughout working and retired life; the employer's obligation is completed when contributions, if any, are made.
- ❑ The amount of the employer's contribution, if any, is defined in the plan; the amount of the employee's contribution may vary at any percentage of compensation up to Internal Revenue Code (IRC) limits.
- ❑ The employee may be authorized to take a loan from an individual account.
- ❑ The investment risk is borne solely by the employee because the retirement benefit is dependent upon the account balance and the earnings from investments credited to the account. If the investment return has not been favorable, the member may not receive an adequate benefit.

***NOTE:*** *The general DC provisions noted above may not apply to the original ASRS defined contribution plan or "System."*

## Appendix B: Historical Membership Criteria

Eligibility for participating in the ASRS has changed over the years. (See Chapter 4: Membership – Criteria for Membership)

### Position Eligibility

For all years, the position an employee occupied must have been covered for Social Security under Section 218 of the Social Security Act in order for the employee to be eligible to participate in the ASRS.

### 20/20 Criteria

Effective Dates	Hours/Weeks Engaged to Work per Fiscal Year	Contributions Submitted for:
7/1/1971 to 6/30/1990	at least 20 hours per week at least 5 continuous months	all eligible compensation from employer
7/1/1990 to 6/30/1992	at least 20 hours per week at least 5 months	all eligible compensation from employer
7/1/1992 to 6/30/1999	at least 20 hours per week at least 20 weeks at all employers  If multiple employers: add hours and weeks together to meet criteria	all eligible compensation from all employers
7/1/1999 to 12/31/2010	at least 20 hours per week at least 20 weeks at <i>one</i> employer  If multiple employers: do <i>not</i> add hours and weeks together to meet criteria	all eligible compensation from employer: 1) with whom meeting 20/20 2) with whom not meeting 20/20 if meeting 20/20 with at least one other employer
1/1/2010 to present	at least 20 hours per week at least 20 weeks at <i>one</i> employer  If multiple employers: do <i>not</i> add hours and weeks together to meet criteria	all eligible compensation from employer with whom meeting 20/20  no compensation from employer with whom not meeting 20/20 unless meet certain criteria (see Chapter 4: Membership – 20/20 Criteria – Dual Employment)

## Appendix C: Maximum Annual Compensation

A.R.S. § 38-746 and Internal Revenue Code Section 401(a)(17) limit the annual compensation that may be taken into account under the ASRS for any fiscal year.

Fiscal Year (Membership Before 7/1/1996)	Annual Limit	Fiscal Year (Membership Beginning 7/1/1996)	Annual Limit
1995-1996	\$245,000	1995-1996	\$170,000
1996-1997	\$250,000	1996-1997	\$170,000
1997-1998	\$260,000	1997-1998	\$170,000
1998-1999	\$265,000	1998-1999	\$170,000
1999-2000	\$270,000	1999-2000	\$170,000
2000-2001	\$275,000	2000-2001	\$170,000
2001-2002	\$285,000	2001-2002	\$200,000
2002-2003	\$295,000	2002-2003	\$200,000
2003-2004	\$300,000	2003-2004	\$200,000
2004-2005	\$305,000	2004-2005	\$205,000
2005-2006	\$315,000	2005-2006	\$210,000
2006-2007	\$325,000	2006-2007	\$220,000
2007-2008	\$335,000	2007-2008	\$225,000
2008-2009	\$345,000	2008-2009	\$230,000
2009-2010	\$360,000	2009-2010	\$245,000
2010-2011	\$360,000	2010-2011	\$245,000
2011-2012	\$360,000	2011-2012	\$245,000
2012-2013	\$375,000	2012-2013	\$250,000

The U.S. Secretary of the Treasury indexes the annual maximum to changes in the consumer price index, and, therefore, will change the maximum periodically. A payment in excess of the maximum allowable compensation amount is not compensation for retirement. The ASRS will return contributions received on such excess amounts to the employer.

## Appendix D: Historical Interest and Contribution Rates

Because the ASRS administers retirement, health insurance and long term disability benefits the ASRS Plan has three funds to which employee and employer contributions are distributed:

- Retirement – a 401(a) account
- Health (premium) Benefit Supplement (HBS) – a 401(h) account
- Long Term Disability (LTD)

The HBS is funded through employer contributions only and are reported and submitted to the ASRS as part of retirement contributions.

FISCAL YEAR	INTEREST RATE (in %)	EMPLOYER RATES (in %)				EMPLOYEE RATES (in %)		SYSTEM RATE (in %)
		PLAN 401(a)	HBS 401(h)	LTD	ALTERNATE CONTRIBUTION RATE (ACR)	PLAN 401(a)	LTD	
1953-54	2.50	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1954-55	2.50	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1955-56	2.50	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1956-57	2.50	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1957-58	2.50	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1958-59	2.50	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1959-60	3.00	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1960-61	3.00	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1961-62	3.00	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1962-63	3.00	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1963-64	3.00	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1964-65	3.00	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1965-66	3.00	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1966-67	3.75	3.50	N/A	N/A	N/A	3.50	N/A	3.50
1967-68	3.75	5.00	N/A	N/A	N/A	5.00	N/A	5.00
1968-69	3.75	5.00	N/A	N/A	N/A	5.00	N/A	5.00
1969-70	4.25	5.00	N/A	N/A	N/A	5.00	N/A	5.00
1970-71	4.25	5.00	N/A	N/A	N/A	5.00	N/A	5.00
1971-72	4.75	5.00	N/A	N/A	N/A	5.00	N/A	5.00
1972-73	4.75	5.00	N/A	N/A	N/A	5.00	N/A	5.00
1973-74	4.75	5.00	N/A	N/A	N/A	5.00	N/A	5.00
1974-75	4.75	5.00	N/A	N/A	N/A	5.00	N/A	5.00
1975-76	5.50	7.00	N/A	N/A	N/A	7.00	N/A	7.00
1976-77	5.50	7.00	N/A	N/A	N/A	7.00	N/A	7.00
1977-78	5.50	7.00	N/A	N/A	N/A	7.00	N/A	7.00
1978-79	5.50	7.00	N/A	N/A	N/A	7.00	N/A	7.00
1979-80	5.50	7.00	N/A	N/A	N/A	7.00	N/A	7.00
1980-81	5.50	7.00	N/A	N/A	N/A	7.00	N/A	7.00
1981-82	5.50	7.00	N/A	N/A	N/A	7.00	N/A	7.00
1982-83	7.00	7.00	N/A	N/A	N/A	7.00	N/A	7.00

FISCAL YEAR	INTEREST RATE (in %)	EMPLOYER RATES (in %)				EMPLOYEE RATES (in %)		SYSTEM RATE (in %)
		PLAN 401(a)	HBS 401(h)	LTD	ALTERNATE CONTRIBUTION RATE (ACR)	PLAN 401(a)	LTD	
1983-84	7.00	7.00	N/A	N/A	N/A	7.00	N/A	7.00
1984-85	8.00	6.27	N/A	N/A	N/A	6.27	N/A	6.27
1985-86	8.00	5.67	N/A	N/A	N/A	5.67	N/A	5.67
1986-87	8.00	5.53	N/A	N/A	N/A	5.53	N/A	5.53
1987-88	8.00	4.00	N/A	N/A	N/A	4.00	N/A	4.00
1988-89	8.00	5.09 (4.78 <sup>1a</sup> )	N/A	0.31 <sup>1a</sup>	N/A	5.09 (4.78 <sup>1a</sup> )	0.31 <sup>1a</sup>	5.09
1989-90	8.00	2.00 (1.29 <sup>1a</sup> )	N/A	0.71 <sup>1a</sup>	N/A	2.00 (1.29 <sup>1a</sup> )	0.71 <sup>1a</sup>	2.00
1990-91	8.00	3.82 (3.37 <sup>1a</sup> )	N/A	0.45 <sup>1a</sup>	N/A	3.82 (3.37 <sup>1a</sup> )	0.45 <sup>1a</sup>	3.82
1991-92	8.00	3.60 (3.17 <sup>1a</sup> )	N/A	0.43 <sup>1a</sup>	N/A	3.60 (3.17 <sup>1a</sup> )	0.43 <sup>1a</sup>	3.60
1992-93	8.00	3.59 (3.10 <sup>1a</sup> )	N/A	0.49 <sup>1a</sup>	N/A	3.59 (3.10 <sup>1a</sup> )	0.49 <sup>1a</sup>	3.59
1993-94	8.00	3.14 (2.65 <sup>1a</sup> )	N/A	0.49 <sup>1a</sup>	N/A	3.14 (2.65 <sup>1a</sup> )	0.49 <sup>1a</sup>	3.14
1994-95	8.00	3.75 (3.26 <sup>1a</sup> )	N/A	0.49 <sup>1a</sup>	N/A	3.75 (3.26 <sup>1a</sup> )	0.49 <sup>1a</sup>	3.75
1995-96	8.00	3.36	N/A	0.49	N/A	3.36	0.49	3.36/7.00 <sup>1b</sup>
1996-97	8.00	1.92	1.28 <sup>1c</sup>	0.49	N/A	3.20	0.49	7.00
1997-98	8.00	1.57	1.48	0.49	N/A	3.05	0.49	7.00
1998-99	8.00	1.61	1.24	0.49	N/A	2.85	0.49	7.00
99-2000	8.00	21.25	0.92	0.49	N/A	2.17	0.49	7.00
00-2001	8.00	1.97	0.20	0.49	N/A	2.17	0.49	7.00
01-2002	8.00	1.94	0.06	0.49	N/A	2.00	0.49	7.00
02-2003	8.00	.60	1.40	0.49	N/A	2.00	0.49	7.00
03-2004	8.00	4.10	1.10	0.50	N/A	5.20	0.50	7.00
04-2005	8.00	4.03	1.17	0.50	N/A	5.20	0.50	7.00
05-2006	8.00	5.76	1.14	0.50	N/A	6.90	0.50	7.00
06-2007	8.00	7.52	1.08	0.50	N/A	8.60	0.50	7.00
07-2008	8.00	8.05	1.05	0.50	N/A	9.10	0.50	7.00
08-2009	8.00	7.99	0.96	0.50	N/A	8.95	0.50	7.00
09-2010	8.00	8.34	0.66	0.40	N/A	9.00	0.40	7.00
10-2011	8.00	9.01	0.59	0.25	N/A	9.60	0.25	7.00
11-2012 <sup>1d</sup>	8.00	9.87	0.63	0.24	N/A	10.50	0.24	7.00
12-2013	8.00	10.25	0.65	0.24	8.64 <sup>1e</sup>	10.90	0.24	7.00

<sup>1a</sup> LTD was not broken out of the contribution rate from FY 89-FY95

<sup>1b</sup> Effective 1/1/96

<sup>1c</sup> The HBS was not broken out of the employer contribution rate until FY97; employee contributions do not fund the HBS

<sup>1d</sup> Pursuant to Arizona Laws 2011, Chapter 26 (Senate Bill 1614) the employee/employer contribution rate split was changed from the historical 50/50 percent split to a 53 percent employee/47 percent employer split. Beginning July 1, 2011, employers paid 9.24% for the 401(a), 0.63% for the 401(h), and 0.23% for the LTD plans; employees paid 11.13% for the 401(a) and 0.26% for the LTD plans. Arizona Laws 2012, Chapter 304 (House Bill 2264) reverted the contribution rate split back to the 50/50 percent split retroactive to July 1, 2011. Employers were required to make adjustments to the contribution transactions already reported in FY 2012 to reflect the employee/employer rates indicated in the table.

<sup>1e</sup> Added by Laws 2011, Chapter 357 (Senate Bill 1609). The ACR is paid by employers for all ASRS retired members who return to work.