

Important: PSPRS Service Purchase Update

Note: the following information was compiled by Brian Moore, Vice-President Local 493 Healthcare and Member Benefits Elected Member, City of Phoenix PSPRS Fire Pension Board. The service purchase update changes apply across the board to all public safety in the State of Arizona and therefore apply equally to all police and fire personnel in the Public Safety Personnel Retirement System.

Last year and without notice, PSPRS changed the manner in which it calculated the cost for service purchases of Rural Metro and out of state service time. A number of Local 493 members had planned to make service purchases last year and were shocked to find that the change made by PSPRS resulted in a cost increase of 60% or more depending on the member's years of service, salary and age. Also affected were many police officers working for the City of Phoenix and across the state. Many of these experienced officers came to Arizona after being recruited by cities and towns during the police officer shortage that existed statewide in the late 90's and early 2000's when the economy was booming. All of those affected had been planning to make purchases when they had close to 20 years of service and were rightfully upset when the change was made without any advanced notification.

A little history is necessary to understand the problem that developed. To entice out of state police officers to relocate to Arizona, PSPRS statutes were amended to allow police officers and firefighters to "buy" unlimited amounts of previously served time in other states. In the mid 2000's, PSPRS statutes were amended again to allow purchase of Rural Metro service credit for those who later began working for a fire district or municipal department that was covered under PSPRS. Purchases of up to a maximum of 4 years of military service had always been allowed as had unlimited years of prior service that was credited in the Arizona State Retirement System (ASRS). Unlimited transfers or purchases of City of Phoenix Employees Retirement System (COPERS) and Tucson Civilian Retirement System service were also permitted. Phoenix Red Shirt time is in the COPERS system. Service in the state as a member of the Corrections Officer Retirement Program (CORP) was also available for purchase in the PSPRS.

The infamous Senate Bill 1609 passed in 2011 change a number of provisions of service purchases. It changed the requirements to 10 years of membership in PSPRS before any purchases could be made and limited out of state and Rural Metro service purchases to 5 years

max no matter how many prior years one might have. The law changed again in 2012 to allow out of state and Rural Metro purchases after 5 years of PSPRS membership but Military service purchase still required 10 years of service. Laws pertaining to purchasing prior service in any of the Arizona plans- ASRS, COPERS, CORP or City of Tucson Retirement plan remained unchanged.

Then in April of 2015 and because of another obscure change in state law, PSPRS began using a much lower *discount rate* to determine the cost of Rural Metro and out of state service credit. No other service purchases were affected. The *discount* rate is the rate used by pension plans to discount the cost of future liability for these service purchases to present value and takes into account the short-term risk of not meeting the assumed rate of return. The main reason for the cost increase was because the new discount rate was around 4% instead of the previous discount rate which was equal to the assumed earnings rate of the PSPRS fund which was 7.5%. Because the change was without notice and created a significant hardship to many folks who had been playing by the rules, Local 493 leadership, PFFA representatives and the police unions went to PSPRS and the legislature to get the discount rate changed back to what it was prior to April 2015. These efforts led to House Bill 2019 that was passed by the legislature and signed by Governor Ducey in April of this year. **The law takes effect on or about August 6th** since the effective date is 90 days after the legislature adjourns. Some of the main provisions of HB 2019 are as follows:

- **The discount rate will change to equal the assumed rate of return set by the PSPRS Board of Trustees for the fund which will be 7.4% on July 1st of this year. This TEMPORARY discount rate change will LOWER the cost of service credit purchase substantially.**
- **This special purchase provision is TEMPORARY and will be in effect until June 30, 2017 at which time the discount rate WILL CHANGE (July 1, 2017) and become an amount equal to the yield of a 10 Year Treasury Bill plus 2% (meaning the discount rate would be about 4% right now) and thus purchases WILL COST SUBSTANTIALLY MORE after that time.**

- **Military service will be able to be purchased after 5 years of membership in PSPRS instead of 10 years. (New provision)**
- **Payment plans will be available using “after tax dollars”. This is a new provision. Service purchases can still be made by transferring 401(a) and 457 assets but those must be used for lump sum purchases (even if on a payment plan, you can still rollover IRS qualified assets to pay off or down the payment plan balance).**

- **After July 1st, 2017, ALL TYPES of service purchases will be calculated using the lower 10 Year T Bill plus 2% discount rate. This will dramatically INCREASE the cost for military, ASRS, COPERS, Red Shirt time, Rural Metro, out of state time etc. You might want to consider making any service purchases prior to 7/1/17 or at least look at the cost differences- even if you do not have 20 years of service. (New provision)**

- **Remember that in order to purchase prior military, Rural Metro or out of state service, you must have 5 years of membership or service credit in PSPRS. Other service purchases/transfers do not require a 5 year wait.**

PSPRS representatives have told me that they will not be updating the service purchase website and online service purchase calculator or even providing specific details until the effective date of the law which is on or around August 6th. In the meantime, you can check what the higher cost is now and then around August 6th when the updated calculator is posted, recalculate your cost to see the difference. The web address for PSPRS is www.psprs.com . Click on the “Public Safety” link at the top of the page and this will take you to the Public Safety page.

This is my personal summary of the legislation and only intended as a general overview. This summary is based upon conversations with the PSPRS lobbyist and PSPRS Service Purchase staff. Please refer to PSPRS and HB2019 for specific details and information. PSPRS will be providing more information in the near future.

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