

1 HB289
2 115728-1
3 By Representatives Knight, Newton (D) and Boyd
4 RFD: Government Appropriations
5 First Read: 14-JAN-10

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8 SYNOPSIS: Currently the accrued liability
9 contribution rate for the Employees' Retirement
10 System is computed by the actuary over a period of
11 not less than 10 nor more than 20 years. This bill
12 would increase the funding period to no more than
13 30 years.

14
15 A BILL
16 TO BE ENTITLED
17 AN ACT
18

19 To amend Section 36-27-24, Code of Alabama, 1975 to
20 increase the maximum funding period for which the accrued
21 liability contribution is calculated for the Employees'
22 Retirement System from 20 years to 30 years.

23 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

24 Section 1. Section 36-27-24, Code of Alabama 1975 is
25 hereby amended to read as follows:

26 "§36-27-24.

1 "Funds for assets of retirement system - Creation;
2 composition; contributions to and disbursements from funds
3 generally; appropriations.

4 (a) Effective October 1, 1997, all the assets of the
5 retirement system shall be credited according to the purpose
6 for which they are held among three funds, namely, the
7 Annuity Savings Fund, the Pension Accumulation Fund, and the
8 Expense Fund. The operation of the former Pension Reserve Fund
9 and the Annuity Reserve Fund shall be discontinued as of such
10 date and the balance of the former Pension Reserve Fund shall
11 be transferred to the Pension Accumulation Fund, and the
12 balance of the former Annuity Reserve Fund shall be
13 transferred to the Pension Accumulation Fund.

14 (b) Annuity Savings Fund. The Annuity Savings Fund
15 shall be a fund in which shall be accumulated contributions
16 from the compensation of members to provide for their
17 annuities.

18 Contributions to and payments from the Annuity
19 Savings Fund shall be made as follows: Effective October 1,
20 1971, each employer shall cause to be deducted from the salary
21 of each member on each and every payroll of such employer for
22 each and every payroll period five percent of his earnable
23 compensation; except, that in the case of a state policeman,
24 the rate of 10 percent of earnable compensation shall apply,
25 and in computing all retirement benefits it shall be assumed
26 that a seven percent rate of contribution had applied with
27 respect to service as a state policeman prior to July 1, 1957.

1 In determining the amount earnable by a member in a payroll
2 period, the Board of Control may consider the rate of annual
3 compensation payable to such member on the first day of the
4 payroll period as continuing through such payroll period, and
5 it may omit deductions from compensation for any period less
6 than a full payroll period if an employee was not a member on
7 the first day of the payroll period, and, to facilitate the
8 making of deductions, it may modify the deductions required of
9 any member by such an amount as shall not exceed one tenth of
10 one percent of the annual compensation upon the basis of which
11 such deductions are made.

12 The deductions provided for in this subsection shall
13 be made notwithstanding that the minimum compensation provided
14 for by law for any member shall be reduced thereby. Every
15 member shall be deemed to consent and agree to the deduction
16 made and provided for in this subsection and shall receipt for
17 his full salary or compensation and payment of salary or
18 compensation less such deductions shall be a full and complete
19 discharge and acquittance of all claims and demands whatsoever
20 for the services rendered by such person during the period
21 covered by such payment, except as to the benefits provided
22 under this article. The employer shall certify to the Board of
23 Control in each and every payroll or in such other manner as
24 the board may prescribe the amounts to be deducted, and each
25 of said amounts shall be deducted and, when deducted, shall be
26 paid into the Annuity Savings Fund and shall be credited,
27 together with regular interest thereon, to the individual

1 account of the member from whose compensation said deduction
2 was made.

3 In addition to the contributions deducted from
4 compensation as provided in this subsection, subject to the
5 approval of the Board of Control, any member may deposit in
6 the Annuity Savings Fund by a single payment or by an
7 increased rate of contribution an amount computed to be
8 sufficient to purchase an additional annuity which, together
9 with his prospective retirement allowance, will provide for
10 him a total retirement allowance not to exceed one half of his
11 average final compensation at age 60. Such additional amounts
12 so deposited shall become a part of his accumulated
13 contributions, except in the case of retirement, when they
14 shall be treated as excess contributions returnable to the
15 member in cash or as an annuity of equivalent actuarial value
16 and shall not be considered in computing his pension.

17 The contributions and interest credits of a member
18 withdrawn by him or paid to his estate or to his designated
19 beneficiary in event of his death shall be paid from the
20 Annuity Savings Fund. Should a member cease to be a member
21 other than by retirement under the provisions of this article,
22 an amount equivalent to the difference, if any, between his
23 accumulated contributions and the amount then paid shall be
24 transferred to the Expense Fund. Upon the retirement of a
25 member or the death of an eligible member where an allowance
26 to a surviving spouse or other designated beneficiary is
27 payable, his accumulated contributions shall be transferred

1 from the Annuity Savings Fund to the Pension Accumulation
2 Fund.

3 Notwithstanding the preceding provisions, no
4 deductions shall be made from any member's salary on account
5 of which the employer's contributions are in default.

6 The State Personnel Board, with the approval of the
7 Governor, may provide that the state shall pick up member
8 contributions to the Employees' Retirement System of Alabama
9 as required by this subsection on behalf of all state
10 employees who participate in the Employees' Retirement System
11 by a corresponding reduction in the salary of the member, such
12 pick-up to be mandatory for all such employees, and the
13 contributions so picked up shall be treated as employer
14 contributions in determining tax treatment under the Internal
15 Revenue Code. These contributions shall be paid from the same
16 source of funds which is used in paying earnings to the
17 employee. If employee contributions are so picked up they
18 shall be treated for all other purposes of state law in the
19 same manner and to the same extent as employee contributions
20 made prior to the date picked up.

21 (c) Pension Accumulation Fund. The Pension
22 Accumulation Fund shall be the fund in which shall be
23 accumulated all reserves other than the amounts held in the
24 Annuity Savings Fund for the payment of all pensions, all
25 allowances granted to surviving spouses or other designated
26 beneficiaries and other benefits payable from contributions
27 made by the employer and from which shall be paid all

1 pensions, all allowances granted to surviving spouses or other
2 designated beneficiaries and other benefits on account of
3 members with prior service credit.

4 Contributions to and payments from the Pension
5 Accumulation Fund shall be made as follows: On account of each
6 member there shall be paid monthly by the employer an amount
7 equal to a certain percentage of the earnable compensation of
8 each member to be known as the "normal contribution" and an
9 additional amount equal to a percentage of his earnable
10 compensation to be known as the "accrued liability
11 contribution," and these two amounts shall be paid monthly
12 into the Pension Accumulation Fund; provided, that in the case
13 of a state policeman, such percentage rates of contributions
14 shall be calculated separately. The percentage rate of such
15 contributions shall be fixed for each fiscal year on the basis
16 of the liabilities of the retirement system as shown by the
17 last annual actuarial valuation, and such percentage rate as
18 established by such valuation shall take effect the following
19 October 1 and continue in effect for the fiscal year.

20 On the basis of regular interest and of such
21 mortality and other tables as shall be adopted by the Board of
22 Control, the actuary engaged by the board to make such
23 valuation required by this article during the period over
24 which the accrued liability contribution is payable shall,
25 immediately after making such valuation, determine the uniform
26 and constant percentage of the earnable compensation of the
27 average new entrant which, if contributed on the basis of his

1 compensation throughout his entire period of active service,
2 would be sufficient to provide for the payment of any pension
3 payable on his account. The percentage rate so determined
4 shall be known as the "normal contribution" rate. The normal
5 rate of contributions shall be determined by the actuary after
6 each valuation.

7 The accrued liability contribution rate shall be
8 computed by the actuary on the basis of each valuation as the
9 percentage rate of the total annual compensation of all
10 members which is sufficient to liquidate the accrued liability
11 over a period to be determined by the Board of Control which
12 shall be not less than 10 nor more than ~~20~~30 years.

13 The unfunded accrued liability shall be computed by
14 the actuary as the total liabilities of the system which are
15 not dischargeable by the assets of the Annuity Savings Fund
16 and the Pension Accumulation Fund and the present value of the
17 aforesaid normal contributions.

18 For purposes of computing the unfunded accrued
19 liability the assets shall be determined as follows:

20 On September 30, 1997, the assets shall be
21 determined by using the market value of such assets. For
22 subsequent years the value of the assets shall be determined
23 by the system's actuary using a five year smoothed market
24 value.

25 The total amount payable in each year to the Pension
26 Accumulation Fund shall be not less than the sum of the
27 percentage rates known as the normal contribution rate and the

1 accrued liability contribution rate of the total compensation
2 earnable by all members during the preceding year.

3 All interest and dividends earned on the funds of
4 the retirement system shall be credited to the Pension
5 Accumulation Fund. The amounts needed to allow a regular
6 interest on the reserves in the Annuity Savings Fund shall be
7 transferred in accordance with this article from the Pension
8 Accumulation Fund. The Board of Control, in its discretion,
9 may transfer to and from the Pension Accumulation Fund the
10 amounts of any surplus or deficit which may develop in the
11 Annuity Savings Fund, or the Expense Fund.

12 Upon the death of a member on account of whom no
13 survivor allowance is payable under subdivisions (2) and (3)
14 of subsection (c) of Section 36-27-16, the death benefit as
15 provided in subdivision (4) of subsection (c) of Section
16 36-27-16 equal to the accumulated contributions, not to exceed
17 \$5,000.00, shall be payable from the Pension Accumulation
18 Fund.

19 (d) Expense Fund. The Expense Fund shall be the fund
20 from which the expenses of the administration of the
21 retirement system shall be paid, exclusive of amounts payable
22 as retirement allowances and as other benefits provided in
23 this chapter. In addition thereto and on account of each
24 member of the retirement system, there shall be paid monthly
25 by the employer an amount equal to a certain percentage of the
26 earnable compensation of each member for the administrative
27 expenses of the retirement system. The percentage rate of such

1 contribution shall be fixed by the Board of Control on the
2 basis of the cost exclusive of that provided by interest not
3 returnable. Any amounts credited to the accounts of the
4 members withdrawing before retirement and not returnable under
5 the provisions of subsection (c) of Section 36-27-16 shall be
6 credited to the Expense Fund.

7 (e) Employer's contributions. For each biennium
8 beginning October 1, 1965, each employer shall pay to the
9 retirement system the rates provided in this section and
10 thereafter, at least 30 days preceding October 1 of each
11 fiscal year, the Board of Control shall certify to the chief
12 fiscal officer of each employer the percentage rates of
13 earnable compensation of the members required to be paid to
14 the retirement system in accordance with subsections (c) and
15 (d) of this section.

16 The employer's contribution on account of the
17 membership of employees whose salaries are paid in whole or in
18 part from funds derived from federal grants shall be paid from
19 funds derived from said federal grants in accordance with
20 statutes governing the administration of said grants and in
21 proportion to salaries paid therefrom. At such time and in
22 such manner as may be required, the Board of Control shall
23 certify to each department of state receiving a federal grant
24 the amount due and payable from said grant as the employer's
25 contribution to the retirement system on account of the
26 membership of said department whose salaries are paid in whole
27 or in part from funds derived from such federal grants. The

1 fiscal agent of the department shall authorize the State
2 Comptroller to draw a warrant or warrants in payment of the
3 amount certified as due and payable from federal grants.

4 (f) Appropriations. There is hereby appropriated
5 annually from the fund from which salaries of the employees of
6 each employer are paid the amounts sufficient to carry out the
7 provisions of this section. In the case of those departments
8 supported wholly by transfers from other state funds, there is
9 hereby appropriated from the supporting funds such additional
10 amounts as may be necessary to pay the employer contribution
11 of each department so supported in the same proportion as the
12 other state funds contribute to the support and maintenance of
13 such department.

14 (g) Employer cost provided for in this article
15 together with member contributions required under this article
16 shall be paid to the Employees' Retirement System on the first
17 day of the month following the month in which the related
18 member salary is earned. Delinquent accounts shall accrue
19 interest at the actuarial assumed investment rate beginning 30
20 days after the original due date. The member contributions for
21 each member shall be reported to the Employees' Retirement
22 System in a format prescribed by the Employees' Retirement
23 System."

24 Section 2. This act shall become effective
25 immediately following its passage and approval by the
26 Governor, or upon its otherwise becoming law.