

1 HB352  
2 116547-1  
3 By Representative Lindsey  
4 RFD: Education Appropriations  
5 First Read: 19-JAN-10

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

15  
16 A BILL  
17 TO BE ENTITLED  
18 AN ACT  
19

20 To amend Sections 16-25-21 and 36-27-24, Code of  
21 Alabama, 1975 to increase the maximum funding period for which  
22 the accrued liability contribution is calculated for the  
23 Teachers' Retirement System and the Employees' Retirement  
24 System from 20 years to 30 years.

25 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

26 Section 1. Sections 16-25-21 and 36-27-24, Code of  
27 Alabama 1975 are hereby amended to read as follows:

1                   "§16-25-21.

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

12                   (1) The Annuity Savings Fund shall be a fund in  
13 which shall be accumulated contributions from the compensation  
14 of members to provide for their annuities. Contributions to  
15 and payments from the Annuity Savings Fund shall be made as  
16 follows:

17                   a. Each employer shall cause to be deducted from the  
18 salary of each member on each and every payroll of such  
19 employer for each and every payroll period five percent of his  
20 earnable compensation. In determining the amount earnable by a  
21 member in a payroll period, the Board of Control may consider  
22 the rate of annual compensation payable to such member on the  
23 first day of the payroll period as continuing throughout such  
24 payroll period, and it may omit deductions from compensation  
25 for any period less than a full payroll period if a teacher  
26 was not a member on the first day of the payroll period, and  
27 to facilitate the making of deductions it may modify the

1 deduction required of any member by such an amount as shall  
2 not exceed one tenth of one percent of the annual compensation  
3 upon the basis of which such deduction is to be made.

4 b. The deductions provided for herein shall be made  
5 notwithstanding that the minimum compensation provided for by  
6 law for any member shall be reduced thereby. Every member  
7 shall be deemed to consent and agree to the deduction made and  
8 provided for herein and shall receipt for his full salary or  
9 compensation, and payment of salary or compensation less such  
10 deduction shall be a full and complete discharge and  
11 acquittance of all claims and demands whatsoever for the  
12 service rendered by such person during the period covered by  
13 such payment, except as to the benefits provided under this  
14 chapter. The employer shall certify to the Board of Control on  
15 each and every payroll or in such other manner as the board  
16 may prescribe the amount to be deducted; and each of said  
17 amounts shall be deducted, and when deducted shall be paid  
18 into the Annuity Savings Fund and shall be credited, together  
19 with regular interest thereon, to the individual account of  
20 the member from whose compensation said deduction was made.

21 c. In addition to the contributions deducted from  
22 compensation as hereinbefore provided, subject to the approval  
23 of the Board of Control, any member may deposit in the Annuity  
24 Savings Fund by a single payment or by an increased rate of  
25 contribution an amount computed to be sufficient to purchase  
26 an additional annuity which, together with his prospective  
27 retirement allowance, will provide for him a total retirement

1 allowance not to exceed one half of his average final  
2 compensation at age 60. Such additional amounts so deposited  
3 shall become a part of his accumulated contributions except in  
4 the case of retirement, when they shall be treated as excess  
5 contributions returnable to the member in cash or as an  
6 annuity of equivalent actuarial value and shall not be  
7 considered in computing his pension. The contributions and  
8 interest credits of a member withdrawn by him, or paid to his  
9 estate or to his designated beneficiary in event of his death,  
10 shall be paid from the Annuity Savings Fund. Should a member  
11 cease to be a member other than by retirement under the  
12 provisions of this title, an amount equivalent to the  
13 difference, if any, between his accumulated contributions and  
14 the amount then paid shall be transferred to the Expense Fund.  
15 Upon the retirement of a member or the death of an eligible  
16 member where an allowance to the surviving spouse is payable,  
17 his accumulated contributions shall be transferred from the  
18 Annuity Savings Fund to the Pension Accumulation Fund.

19 d. Notwithstanding the preceding provisions, no  
20 deductions shall be made from any member's salary on account  
21 of which the employer's contribution is in default.

22 (2) The Pension Accumulation Fund shall be the fund  
23 in which shall be accumulated all reserves, other than amounts  
24 held in the Annuity Savings Fund for the payment of all  
25 pensions and other benefits. Contributions to and payments  
26 from the Pension Accumulation Fund shall be made as follows:

1           a. On account of each member there shall be paid  
2 monthly by the employer an amount equal to a certain  
3 percentage of the earnable compensation of each member to be  
4 known as the "normal contribution" and an additional amount  
5 equal to a percentage of his earnable compensation to be known  
6 as the "accrued liability contribution," and these two amounts  
7 shall be paid monthly into the Pension Accumulation Fund. The  
8 Teachers' Retirement System shall recommend to the Legislature  
9 on or before the first legislative day of each regular session  
10 of the Legislature the rate for the following fiscal year. The  
11 Legislature shall set the rate in the annual appropriation  
12 bill.

13           b. On the basis of regular interest and of such  
14 mortality and other tables as shall be adopted by the Board of  
15 Control, the actuary engaged by the board to make such  
16 valuation required by this title shall, immediately after  
17 making such valuation, determine the uniform and constant  
18 percentage of the earnable compensation of the average new  
19 entrant which, if contributed on the basis of his compensation  
20 throughout his entire period of active service, would be  
21 sufficient to provide for the payment of any pension payable  
22 on his account. The rate per centum so determined shall be  
23 known as the "normal contribution" rate. The normal  
24 contribution rate shall be determined by the actuary after  
25 each valuation.

26           c.1. The accrued liability contribution rate shall  
27 be computed by the actuary on the basis of each valuation as

1 the per centum rate of the total annual compensation of all  
2 members which is sufficient to liquidate the unfunded accrued  
3 liability over a period to be determined by the Board of  
4 Control which shall be not less than 10 nor more than ~~20~~ 30  
5 years.

6 2. The unfunded accrued liability shall be computed  
7 by the actuary as the total liabilities of the system which  
8 are not dischargeable by the assets of the Annuity Savings  
9 Fund and the Pension Accumulation Fund and the present value  
10 of the aforesaid normal contributions. For purposes of  
11 computing the unfunded accrued liability the assets shall be  
12 determined as follows:

13 On June 30, 1997, the assets shall be determined by  
14 using the market value of such assets. For subsequent years  
15 the value of the assets shall be determined by the system's  
16 actuary using a five year smoothed market value.

17 d. The total amount payable in each year to the  
18 Pension Accumulation Fund shall be not less than the sum of  
19 the per centum rates known as the normal contribution rate and  
20 the accrued liability contribution rate of the total  
21 compensation earnable by all members during the year.

22 e. All interest and dividends earned on the funds of  
23 the retirement system shall be credited to the Pension  
24 Accumulation Fund. The amounts needed to allow regular  
25 interest on the reserves in the Annuity Savings Fund shall be  
26 transferred in accordance with the provisions of this chapter  
27 from the Pension Accumulation Fund. The Board of Control, in

1 its discretion, may transfer to and from the Pension  
2 Accumulation Fund the amount of any surplus or deficit which  
3 may develop in the Annuity Savings Fund or the Expense Fund.

4 f. Upon the death of a member on account of whom no  
5 survivor allowance is payable under subdivisions (2) and (3)  
6 of subsection (g) of Section 16-25-14, the death benefit as  
7 provided in subdivision (3) of subsection (g) of such section  
8 equal to the accumulated contributions not to exceed \$5,000  
9 shall be payable from the Pension Accumulation Fund.

10 (3) The Expense Fund shall be the fund from which  
11 the expenses of the administration of the retirement system  
12 shall be paid, exclusive of amounts payable as retirement  
13 allowances and as other benefits provided herein. Any amounts  
14 credited to the accounts of members withdrawing before  
15 retirement and not returnable under the provisions of  
16 subsection (g) of Section 16-25-14 shall be credited to the  
17 Expense Fund. Any additional contributions required to meet  
18 the expenses of the retirement system shall be made as  
19 provided in paragraphs c., d. and e. of subdivision (4) of  
20 this section.

21 (4) a. On or before October 1 of each year, each  
22 local board of education, the State Board of Education, the  
23 governing boards of the University of Alabama, Auburn  
24 University and the University of Montevallo and the Executive  
25 Committee of the Alabama Education Association shall file with  
26 the Board of Control of the retirement system a certified  
27 statement containing the following information concerning the



1 members of the retirement system employed by such boards for  
2 the scholastic year beginning on July first preceding said  
3 date: Name, address, monthly salary, annual salary and such  
4 other information as the Board of Control may require. On or  
5 before July 31 of each year, each local board of education;  
6 the State Board of Education; the governing boards of the  
7 University of Alabama, Auburn University, and the University  
8 of Montevallo and the Executive Committee of the Alabama  
9 Education Association shall file with the Board of Control of  
10 the retirement system a certified statement containing the  
11 following information concerning members of the retirement  
12 system employed by such boards during the scholastic year  
13 ending on June 30 preceding said date: name, address, monthly  
14 salary actually paid, total annual salary actually paid and  
15 such other information as the Board of Control may require.

16 b. The collection of members' contributions shall be  
17 as follows: Each local board of education, the State Board of  
18 Education, the governing boards of the University of Alabama,  
19 Auburn University and the University of Montevallo and the  
20 Executive Committee of the Alabama Education Association shall  
21 cause to be deducted on each and every payroll period  
22 subsequent to the date of the establishment of the retirement  
23 system the contributions payable by each member as provided in  
24 this chapter. Each employer shall transmit monthly, or at such  
25 time as the Board of Control shall designate, the total amount  
26 so deducted to the Secretary-Treasurer of the Board of Control  
27 accompanied by an itemized statement of the contributions of

1 each individual member of the retirement system. The  
2 Secretary-Treasurer of the Board of Control after making a  
3 record of all such receipts shall transmit the same to the  
4 State Treasurer to be held for use according to the provisions  
5 of this chapter. Notwithstanding anything in this section, the  
6 Board of Control may modify the form of reports required of  
7 employers and may modify the method of collecting the  
8 contributions of members so that employers may retain the  
9 amounts so deducted and have a corresponding amount deducted  
10 from funds otherwise payable to them.

11 c. The employer's contributions shall be made from  
12 the same funds used to pay salaries based on the employer cost  
13 rate determined under paragraph a. of subdivision (2).

14 d. Where member contributions are made from salaries  
15 paid from federal funds, the employer shall pay from federal  
16 funds to the Teachers' Retirement System the amount calculated  
17 as a percentage of the salaries of those teachers to be  
18 contributed by the employer in accordance with subdivisions  
19 (2) and (3) of this section. Such amounts shall be paid at the  
20 same time as the member contributions are made to the  
21 retirement system. The provisions of this paragraph shall not  
22 apply to funds received under the provisions of the Hatch Act  
23 of 1887, as amended in 1955, and the McIntyre-Stennis Act  
24 (Cooperative Forestry Research Act of 1962) of the Congress of  
25 the United States, for the support of agriculturally related  
26 research.

1 e. Where member contributions are made from salaries  
2 paid by the Alabama Education Association, the Alabama  
3 Education Association shall pay the employer costs calculated  
4 as a percentage of the salaries of those employees to be  
5 contributed as employer in accordance with subdivisions (2)  
6 and (3) of this section. Such amounts shall be paid monthly  
7 and at the same time as the member contributions are made to  
8 the Teachers' Retirement System.

9 f. To the extent that employer cost is collected for  
10 any increase in benefits payable to retired employees of local  
11 boards of education and state institutions of higher education  
12 who are retired under the Employees' Retirement System, there  
13 shall be a transfer of funds from these funds to the  
14 Employees' Retirement System for each year such benefits are  
15 payable.

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

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.