

1 HB503
2 128883-3
3 By Representative Ford
4 RFD: Ways and Means General Fund
5 First Read: 12-APR-11

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8 SYNOPSIS: This bill would create a new Deferred
9 Retirement Option Plan for teachers and state
10 employees.

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12 A BILL
13 TO BE ENTITLED
14 AN ACT

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16 To add Sections 16-25-150.1, 16-25-151.1,
17 36-27-170.1, and 36-27-171.1 to the Code of Alabama 1975,
18 relating to a new Deferred Retirement Option Plan for teachers
19 and state employees.

20 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

21 Section 1. Sections 16-25-150.1, 16-25-151.1,
22 36-27-170.1, and 36-27-171.1 are added to the Code of Alabama
23 1975, to read as follows:

24 §16-25-150.1.

25 (a) As governed by this subsection, there exists as
26 a part of this retirement system an optional account known as
27 the Deferred Retirement Option Plan, which may be cited as

1 "DROP." The purpose of DROP is to allow, contractually, in
2 lieu of immediate withdrawal from service and receipt of a
3 retirement allowance, continued employment for a specific
4 period of time, coupled with the deferral of receipt of a
5 retirement allowance until the end of the period of
6 participation, at which time the member shall withdraw from
7 service.

8 (b) Participation in DROP is an option available to
9 any member of this retirement system who meets all of the
10 following requirements:

11 (1) Has at least 30 years of creditable service
12 exclusive of sick leave.

13 (2) Is at least 57 years of age.

14 (3) Is eligible for service retirement and earns
15 less than seventy-five thousand dollars (\$75,000) a year at
16 the time he or she begins participation with a maximum annual
17 increase of two percent per year.

18 (c) An election to participate in DROP may be made
19 in one year increments not to exceed five years, nor to be
20 less than three years. A member may participate in DROP only
21 one time. Any voluntary termination within the first three
22 years in DROP will result in a forfeiture of all the DROP
23 account, including benefit deposits, member contributions, and
24 interest. There will be no penalty forfeiture if the
25 participation period is interrupted due to disability, as
26 defined by Social Security, or death of the participant.

1 (d) A member who chooses to participate in DROP may
2 elect an option allowance set out for members of the Teachers'
3 Retirement System in subsection (h) of Section 16-25-14 at the
4 beginning of the participation period. Otherwise, he or she
5 shall receive the maximum benefit. Such election shall be
6 irrevocable once the participation period begins except as
7 otherwise provided in this chapter.

8 (e) For purposes of DROP, sick leave may not be
9 converted for purposes of establishing retirement eligibility,
10 nor used in the calculation of the original retirement
11 allowance except as provided in Section 16-25-151.1.

12 (f) The election to participate in DROP shall be
13 made in accordance with procedures set forth in a uniform and
14 nondiscriminatory election and application form adopted by the
15 Board of Control. The election to participate in DROP may be
16 made at any time on or after the date the member becomes
17 eligible to participate as set out in subsection (b). Such
18 application must be made at least 30 days, but not more than
19 90 days, before the effective date of participation in DROP. A
20 member must retire at the end of the participation period not
21 to exceed five years or he or she will forfeit the benefit
22 deposits in the DROP account, including member contributions
23 and all interest.

24 (g) Upon the effective date of the commencement in
25 DROP, the member's service shall remain as it existed on that
26 date for the duration of DROP. Once a member enters DROP,
27 service credit purchases are prohibited. Both the employer and

1 employee member contribution shall continue to be made.
2 However, the member is not entitled to a return of his or her
3 contribution upon completion of DROP. The monthly retirement
4 allowance that would have been payable, had the person elected
5 to withdraw from service and receive a retirement allowance,
6 shall be paid into a DROP account that reflects the credits
7 attributed to the person in DROP. However, the monies shall
8 remain a part of the regular retirement fund until disbursed
9 to the participating member in accordance with this section.
10 Any monies paid into this account are subject to the
11 exemptions set out in Section 16-25-23.

12 (h) The DROP account shall earn interest on the
13 lesser of two percent or the yield for two-year United States
14 Treasury notes. A person who participates in this plan shall
15 not be eligible to receive a retiree cost-of-living increase
16 while participating in DROP, and shall not be eligible for a
17 retiree cost-of-living increase until participation in the
18 plan ceases and he or she withdraws from service and has been
19 receiving a retirement allowance for at least one full year.

20 (i) DROP shall not be subject to any fees, charges,
21 or other similar expenses of any kind for any purpose.

22 (j) Participation in DROP shall not affect the
23 rights of any education employee including, but not limited
24 to, the Fair Dismissal Act, Section 36-26-100 et seq., the
25 tenure law, Section 16-24-1, et seq., or any other fringe
26 benefit.

1 (k) Participation in DROP shall not affect the
2 accrual of annual and sick leave by the participant.

3 (l) Participants in DROP may receive salary
4 cost-of-living adjustments and salary increases.

5 §16-25-151.1.

6 (a) On withdrawing from service pursuant to Section
7 16-25-14, a member who participated in DROP:

8 (1) Who fulfilled his or her contractual obligation
9 pursuant to DROP shall receive a lump-sum payment from his or
10 her DROP account equal to the payments made to that account on
11 his or her behalf plus interest. In lieu of a lump-sum payment
12 from the DROP account, to the extent eligible under applicable
13 tax laws, the member's total accrued benefit may be "rolled
14 over" directly to the custodian of an eligible retirement
15 plan. The member shall also begin receiving his or her monthly
16 benefit which had been paid directly into the DROP account
17 during his or her participation in DROP. However, the monthly
18 benefit shall be recalculated prospectively to reflect any
19 accrued sick leave as credit for retirement purposes.

20 Conversion of sick leave is limited to the applicable laws
21 pertaining to conversion of sick leave into retirement credit.
22 In no event can the number of days converted be greater than
23 the number of days the participant had on the date he or she
24 entered DROP. The member is not allowed to change the option
25 allowance chosen at the beginning of DROP participation.

26 (2) Who did not fulfill his or her obligation under
27 DROP due to disability shall receive a lump-sum payment from

1 his or her DROP account equal to the payments made to that
2 account on his or her behalf plus interest. In lieu of a
3 lump-sum payment from the DROP account, to the extent eligible
4 under applicable tax laws, the member's total accrued benefit
5 may be "rolled over" directly to the custodian of an eligible
6 retirement plan. The member shall also begin receiving his or
7 her monthly benefit which had been paid directly into the DROP
8 account during his or her participation in DROP. However, the
9 monthly benefit shall be recalculated prospectively to reflect
10 any accrued sick leave as credit for retirement purposes.
11 Conversion of sick leave is limited to the applicable laws
12 pertaining to conversion of sick leave into retirement credit.
13 In no event can the number of days converted be greater than
14 the number of days the participant had on the date he or she
15 entered DROP. The member is not allowed to change the option
16 allowance chosen at the beginning of DROP participation.

17 (3) Who did not fulfill his or her obligation under
18 DROP due to voluntary termination within the first three years
19 of participation shall forfeit his or her DROP account.
20 However, following termination of employment, the member shall
21 begin receiving his or her monthly benefit which had been paid
22 directly into the DROP account during his or her participation
23 in DROP. However, the monthly benefit shall be recalculated
24 prospectively to reflect any accrued sick leave as credit for
25 retirement purposes. Conversion of sick leave is limited to
26 the applicable laws pertaining to conversion of sick leave
27 into retirement credit. In no event can the number of days

1 converted be greater than the number of days the participant
2 had on the date he or she entered DROP. The member is not
3 allowed to change the option allowance chosen at the beginning
4 of DROP participation.

5 (b) If a participant dies during the period of
6 participation in DROP, a lump-sum payment equal to the
7 payments made to the DROP account on his or her behalf plus
8 interest shall be paid to his or her named beneficiary or, if
9 none, to his or her estate. However, death benefits payable
10 pursuant to subsection (g) of Section 16-25-14 or Section
11 36-27B-3 shall not be applicable. Where there is a beneficiary
12 that would be entitled to an ongoing monthly benefit, if
13 applicable laws allow, the monthly benefit may be recalculated
14 prospectively to reflect accrued sick leave as credit for
15 retirement purposes. If applicable laws allow, the beneficiary
16 may elect to be paid for the deceased member's sick leave as
17 would any other member upon retirement. In no event can the
18 number of sick leave days used for either calculation be
19 greater than the number of days the participant had on entry
20 into DROP. The member is not allowed to change the option
21 allowance chosen at the beginning of DROP participation.

22 (c) At the end of the specified period for DROP:

23 (1) Payments into the DROP account made on behalf of
24 the member shall cease.

25 (2) If the member does not withdraw from service
26 after the period specified for participation in DROP, he or
27 she shall forfeit his or her DROP account and he or she shall

1 resume active contributing membership in the system for the
2 purpose of earning creditable service. Under no circumstance
3 will any time spent participating in DROP be eligible to
4 constitute service credit in any Alabama public supported
5 retirement system.

6 (d) (1) Upon withdrawal from service, the monthly
7 retirement allowance that was being originally paid into the
8 DROP account shall begin to be paid to the member. However,
9 the monthly benefit shall be recalculated prospectively to
10 reflect any accrued sick leave as credit for retirement
11 purposes. Conversion of sick leave is limited to the
12 applicable laws pertaining to conversion of sick leave into
13 retirement credit. In no event can the number of days
14 converted be greater than the number of days the participant
15 had on the date he or she entered DROP. The member is not
16 allowed to change the option allowance chosen at the beginning
17 of DROP participation.

18 (2) Upon withdrawal from service, the member shall
19 receive an additional retirement benefit based on his or her
20 additional service rendered to the system since termination of
21 participating in DROP, using the normal method of computation
22 of benefit for that period only. This additional service shall
23 not be added to any service prior to his or her participation
24 in DROP. The member's average compensation for that time
25 worked after the participation in DROP shall be multiplied by
26 the appropriate benefit factor multiplied by the amount of
27 time worked after the participation in DROP. Under no

1 circumstances is this service to be combined with service
2 prior to participation in DROP.

3 (3) The option used for retirement purposes shall be
4 that applicable to the original benefit.

5 (4) If the member dies or becomes disabled during
6 the period of additional service, he or she shall be
7 considered as having retired on the date of death or
8 commencement of disability. However, no death benefits
9 pursuant to subsection (g) of Section 16-25-14 or Section
10 36-27B-3 will be applicable.

11 §36-27-170.1.

12 (a) As governed by this subsection, there exists as
13 a part of this retirement system, an optional account known as
14 the Deferred Retirement Option Plan, which may be cited as
15 "DROP." The purpose of DROP is to allow, contractually, in
16 lieu of immediate withdrawal from service and receipt of a
17 retirement allowance, continued employment for a specific
18 period of time, coupled with the deferral of receipt of a
19 retirement allowance until the end of such period of
20 participation, at which time the member shall withdraw from
21 service.

22 (b) Participation in DROP is an option available to
23 any member of this retirement system who meets all of the
24 following:

25 (1) Has at least 30 years of creditable service
26 exclusive of sick leave.

1 (2) Is at least 57 years of age, or in the case of a
2 state police member, is at least 52 years of age.

3 (3) Is eligible for service retirement and earns
4 less than seventy-five thousand dollars (\$75,000) a year at
5 the time he or she begins participation in DROP with a maximum
6 annual increase of two percent per year.

7 (c) An election to participate in DROP may be made
8 in one year increments not to exceed five years, nor to be
9 less than three years. A member may participate in DROP only
10 one time. Any voluntary termination within the first three
11 years in DROP will result in a forfeiture of all of the DROP
12 account, including the benefit deposits, member contributions,
13 and interest. There will be no forfeiture if the participation
14 period is interrupted due to disability, as defined by Social
15 Security, or death of the participant.

16 (d) A member who chooses to participate in DROP may
17 elect an option allowance set out for members of the
18 Employees' Retirement System in subsection (d) of Section
19 36-27-16 at the beginning of the participation period.
20 Otherwise, he or she shall receive the maximum benefit. Such
21 election shall be irrevocable once the participation period
22 begins except as otherwise provided in this chapter.

23 (e) For purposes of DROP, sick leave may not be
24 converted for purposes of establishing retirement eligibility,
25 nor used in the calculation of the original retirement
26 allowance except as provided in Section 36-27-171.1. A person
27 electing to enter the DROP program is not eligible for a

1 lump-sum payment for any annual or sick leave until withdrawal
2 from service.

3 (f) The election to participate in DROP shall be
4 made in accordance with procedures set forth in a uniform and
5 nondiscriminatory election and application form adopted by the
6 Board of Control. The election to participate in DROP may be
7 made at any time on or after the date the member becomes
8 eligible to participate as set out in subsection (b). Such
9 application must be made at least 30 days, but not more than
10 90 days, before the effective date of participation in DROP. A
11 member must retire at the end of the participation period not
12 to exceed five years or he or she will forfeit the benefit
13 deposits in the DROP account, including member contributions
14 and all interest.

15 (g) Upon the effective date of the commencement in
16 DROP, the member's service shall remain as it existed on that
17 date for the duration of DROP. Once a member enters DROP,
18 service credit purchases are prohibited. The employer and
19 employee member contribution shall continue to be made.
20 However, the member is not entitled to a return of his or her
21 contributions upon completion of DROP. The monthly retirement
22 allowance that would have been payable, had the person elected
23 to withdraw from service and receive a retirement allowance,
24 shall be paid into a DROP account that reflects the credits
25 attributed to the person in DROP. However, the monies shall
26 remain a part of the regular retirement fund until disbursed
27 to the participating member in accordance with this section.

1 Any monies paid into this account are subject to the
2 exemptions set out in Section 36-27-28.

3 (h) The DROP account shall earn interest on the
4 lesser of two percent or the yield for two-year United States
5 Treasury notes. A person who participates in this plan shall
6 not be eligible to receive a retiree cost-of-living increase
7 while participating in DROP, and shall not be eligible for a
8 retiree cost-of-living increase until participation in the
9 plan ceases and he or she withdraws from service and has been
10 receiving a retirement allowance for at least one full year.

11 (i) DROP shall not be subject to any fees, charges,
12 or other similar expenses of any kind for any purpose.

13 (j) Participation in DROP shall not affect the
14 rights of any state employee under the state personnel system,
15 including, but not limited to, his or her rights to longevity
16 pay.

17 (k) Participation in DROP shall not affect the
18 accrual of annual and sick leave by the participant.

19 (l) Participants in DROP may receive salary
20 cost-of-living adjustments and salary increases.

21 §36-27-171.1.

22 (a) On withdrawing from service pursuant to Section
23 36-27-16, a member who participated in DROP:

24 (1) Who fulfilled his or her contractual obligation
25 pursuant to DROP shall receive a lump-sum payment from his or
26 her DROP account equal to the payments made to that account on
27 his or her behalf plus interest. In lieu of a lump-sum payment

1 from the DROP account, to the extent eligible under applicable
2 tax laws, the member's total accrued benefit may be "rolled
3 over" directly to the custodian of an eligible retirement
4 plan. The member shall also begin receiving his or her monthly
5 benefit which had been paid directly into the DROP account
6 during his or her participation in DROP. However, if
7 applicable laws allow, the monthly benefit may be recalculated
8 prospectively to reflect accrued sick leave as credit for
9 retirement purposes. If applicable laws allow, the participant
10 may elect to be paid for his or her sick leave as would any
11 other member upon retirement. In no event can the number of
12 sick leave days used for either calculation be greater than
13 the number of days the participant had on entry into DROP. The
14 member is not allowed to change the option allowance chosen at
15 the beginning of DROP participation.

16 (2) Who did not fulfill his or her obligation under
17 DROP due to disability shall receive a lump-sum payment from
18 his or her DROP account equal to the payments made to that
19 account on his or her behalf plus interest. In lieu of a
20 lump-sum payment from the DROP account to the extent eligible
21 under applicable tax laws, the member's total accrued benefit
22 may be "rolled over" directly to the custodian of an eligible
23 retirement plan. The member shall also begin receiving his or
24 her monthly benefit which had been paid into the DROP account
25 during his or her participation in DROP. However, if
26 applicable laws allow, the monthly benefit may be recalculated
27 prospectively to reflect accrued sick leave as credit for

1 retirement purposes. If applicable laws allow, the participant
2 may elect to be paid for his or her sick leave as would any
3 other member upon retirement. In no event can the number of
4 sick leave days used for either calculation be greater than
5 the number of days the participant had on entry into DROP. The
6 member is not allowed to change the option allowance chosen at
7 the beginning of DROP participation.

8 (3) Who did not fulfill his or her obligation under
9 DROP due to voluntary termination within the first three years
10 of participation shall forfeit his or her DROP account.
11 However, following termination of employment, the member shall
12 begin receiving his or her monthly benefit which had been paid
13 directly into the DROP account during his or her participation
14 in DROP. However, if applicable laws allow, the monthly
15 benefit may be recalculated prospectively to reflect accrued
16 sick leave as credit for retirement purposes. If applicable
17 laws allow, the participant may elect to be paid for his or
18 her sick leave as would any other member upon retirement. In
19 no event can the number of sick leave days used for either
20 calculation be greater than the number of days the participant
21 had on entry into DROP. The member is not allowed to change
22 the option allowance chosen at the beginning of DROP
23 participation.

24 (b) If a participant dies during the period of
25 participation in DROP, a lump-sum payment equal to the
26 payments made to the DROP account on his or her behalf plus
27 interest shall be paid to his or her named beneficiary or, if

1 none, to his or her estate. However, death benefits payable
2 pursuant to subsection (c) of Section 36-27-16 or Section
3 36-27B-3 shall not be applicable. Where there is a beneficiary
4 who would be entitled to an ongoing monthly benefit, if
5 applicable laws allow, the monthly benefit may be recalculated
6 prospectively to reflect accrued sick leave as credit for
7 retirement purposes. If applicable laws allow, the beneficiary
8 may elect to be paid for the deceased member's sick leave as
9 would any other member upon retirement. In no event can the
10 number of sick leave days used for either calculation be
11 greater than the number of days the participant had on entry
12 into DROP. The member is not allowed to change the option
13 allowance chosen at the beginning of DROP participation.

14 (c) At the end of the specified period for DROP:

15 (1) Payments into the DROP account made on behalf of
16 the member shall cease.

17 (2) If the member does not withdraw from service
18 after the period specified for participation in DROP, he or
19 she shall forfeit his or her DROP account and he or she shall
20 resume active contributing membership in the system for the
21 purpose of earning creditable service. Under no circumstance
22 will any time spent participating in DROP be eligible to
23 constitute service credit in any Alabama public supported
24 retirement system.

25 (d) (1) Upon withdrawal from service, the member
26 shall receive an additional retirement benefit based on his or
27 her additional service rendered to the system since

1 termination of participating in DROP, using the normal method
2 of computation of benefit for that period only. This
3 additional service shall not be added to any service prior to
4 his or her participation in DROP. The member's average
5 compensation for that time worked after the participation in
6 DROP shall be multiplied by the appropriate benefit factor
7 multiplied by the amount of time worked after the
8 participation in DROP. Under no circumstances is this service
9 to be combined with service prior to participation in DROP.

10 (2) Upon withdrawal from service, the member shall
11 receive an additional retirement benefit based on his or her
12 additional service rendered to the system since termination of
13 participating in DROP, using the normal method of computation
14 of benefit for that period only. This additional service shall
15 not be added to any service prior to his or her participation
16 in DROP. The member's average compensation for that time
17 worked after the participation in DROP shall be multiplied by
18 the appropriate benefit factor multiplied by the amount of
19 time worked after the participation in DROP. Under no
20 circumstances is this service to be combined with service
21 prior to participation in DROP.

22 (3) The option used for retirement purposes shall be
23 that applicable to the original benefit.

24 (4) If the member dies or becomes disabled during
25 the period of additional service, he or she shall be
26 considered as having retired on the date of death or
27 commencement of disability. However, no death benefits

1 pursuant to subsection (c) of Section 36-27-16 or Section
2 36-27B-3 will be applicable.

3 Section 2. The provisions of this act are severable.
4 If any part of this act is declared invalid or
5 unconstitutional, that declaration shall not affect the part
6 which remains.

7 Section 3. This act shall become effective on the
8 first day of the third month following its passage and
9 approval by the Governor, or its otherwise becoming law.