

1 SB72
2 126305-3
3 By Senators Marsh, Pittman, Holtzclaw, Williams, Glover,
4 McGill and Beason
5 RFD: Finance and Taxation Education
6 First Read: 01-MAR-11

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8 SYNOPSIS: Currently, members of the Teachers'
9 Retirement System and the Employees' Retirement
10 System may participate in the Deferred Retirement
11 Option Plan if they meet certain criteria.

12 This bill would prohibit new participation
13 in the DROP Program after April 1, 2011, and would
14 impose limits on interest that could be paid on
15 DROP accounts.

16
17 A BILL
18 TO BE ENTITLED
19 AN ACT

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21 To amend Sections 16-25-150 and 36-27-170 of the
22 Code of Alabama 1975, relating to the Deferred Retirement
23 Option Plan, to prohibit new participation in the plan and
24 limit interest paid on accounts.

25 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

26 Section 1. Sections 16-25-150 and 36-27-170 of the
27 Code of Alabama 1975, are amended to read as follows;

1 "§16-25-150.

2 "(a) As governed by this subsection, there exists as
3 a part of this retirement system an optional account known as
4 the Deferred Retirement Option Plan, which may be cited as
5 "DROP." The purpose of DROP is to allow, contractually, in
6 lieu of immediate withdrawal from service and receipt of a
7 retirement allowance, continued employment for a specific
8 period of time, coupled with the deferral of receipt of a
9 retirement allowance until the end of the period of
10 participation, at which time the member shall withdraw from
11 service.

12 "(b) Participation in DROP is an option available to
13 any member of this retirement system who meets all of the
14 following requirements:

15 "(1) Has at least 25 years of creditable service
16 exclusive of sick leave.

17 "(2) Is at least 55 years of age.

18 "(3) Is eligible for service retirement.

19 "(c) An election to participate in DROP may be made
20 in one year increments not to exceed five years, nor to be
21 less than three years. A member may participate in DROP only
22 one time. Any voluntary termination within the first three
23 years in DROP will result in a forfeiture of the portion of
24 his or her DROP account that constitutes the retirement
25 allowance. However, member contributions will not be
26 forfeited, nor will any interest attributable to the
27 retirement allowance. There will be no penalty forfeiture if

1 the participation period is interrupted due to an involuntary
2 dismissal, disability, involuntary transfer of his or her
3 spouse, or death of the participant.

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

11 "(e) For purposes of DROP, sick leave may not be
12 converted for purposes of establishing retirement eligibility,
13 nor used in the calculation of the original retirement
14 allowance except as provided in Section 16-25-151.

15 "(f) The election to participate in DROP shall be
16 made in accordance with procedures set forth in a uniform and
17 nondiscriminatory election and application form adopted by the
18 Board of Control. The election to participate in DROP may be
19 made at any time on or after the date the member becomes
20 eligible to participate as set out in subsection (b). Such
21 application must be made at least 30 days, but not more than
22 90 days, before the effective date of participation in DROP.

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

1 monthly retirement allowance that would have been payable, had
2 the person elected to withdraw from service and receive a
3 retirement allowance, shall be paid into a DROP account that
4 reflects the credits attributed to the person in DROP.
5 However, the monies shall remain a part of the regular
6 retirement fund until disbursed to the participating member in
7 accordance with this section. Any monies paid into this
8 account are subject to the exemptions set out in Section
9 16-25-23.

10 "(h) (1) The DROP account shall earn interest at the
11 same rate that interest is posted to active member accounts as
12 defined in subdivision (15) of Section 16-25-1. A person who
13 participates in this plan shall not be eligible to receive a
14 retiree cost-of-living increase while participating in DROP,
15 and shall not be eligible for a retiree cost-of-living
16 increase until participation in the plan ceases and he or she
17 withdraws from service and has been receiving a retirement
18 allowance for at least one full year.

19 "(2) Notwithstanding any other provision of this
20 chapter, for any member who has fulfilled his or her
21 obligation under DROP and does not retire and any member who
22 begins participation in DROP on or before April 1, 2011, and
23 fulfills his or her obligation under DROP and does not retire,
24 the amount of interest payable on member contributions shall
25 be the lesser of (1) the weekly average one-year constant
26 maturity yield, as published by the Board of Governors of the
27 Federal Reserve System, for the calendar week in which the

1 first day of the fiscal year following the year for which the
2 interest is to be credited falls, or (2) as provided in
3 subdivision (1) of subsection (g) of Section 16-25-14.

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

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

11 "(k) Participation in DROP shall not affect the
12 accrual of annual and sick leave by the participant.

13 "(l) Participants in DROP may receive salary
14 cost-of-living adjustments and salary increases.

15 "(m) No person may begin participation in DROP after
16 April 1, 2011.

17 "§36-27-170.

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

1 "(b) Participation in DROP is an option available to
2 any member of this retirement system who meets all of the
3 following:

4 "(1) Has at least 25 years of creditable service
5 exclusive of sick leave.

6 "(2) Is at least 55 years of age, or in the case of
7 a state police member, is at least 52 years of age.

8 "(3) Is eligible for service retirement.

9 "(c) An election to participate in DROP may be made
10 in one year increments not to exceed five years, nor to be
11 less than three years. A member may participate in DROP only
12 one time. Any voluntary termination within the first three
13 years in DROP will result in a forfeiture of a portion of his
14 or her DROP account that constitutes the retirement allowance.
15 However, member contributions will not be forfeited nor will
16 any interest attributable to the retirement allowance. There
17 will be no forfeiture if the participation period is
18 interrupted due to an involuntary dismissal, disability,
19 involuntary transfer of his or her spouse, or death of the
20 participant.

21 "(d) A member who chooses to participate in DROP may
22 elect an option allowance set out for members of the
23 Employees' Retirement System in subsection (d) of Section
24 36-27-16 at the beginning of the participation period.
25 Otherwise, he or she shall receive the maximum benefit. Such
26 election shall be irrevocable once the participation period
27 begins except as otherwise provided in this chapter.

1 "(e) For purposes of DROP, sick leave may not be
2 converted for purposes of establishing retirement eligibility,
3 nor used in the calculation of the original retirement
4 allowance except as provided in Section 36-27-171. A person
5 electing to enter the DROP program is not eligible for a
6 lump-sum payment for any annual or sick leave until withdrawal
7 from service.

8 "(f) The election to participate in DROP shall be
9 made in accordance with procedures set forth in a uniform and
10 nondiscriminatory election and application form adopted by the
11 Board of Control. The election to participate in DROP may be
12 made at any time on or after the date the member becomes
13 eligible to participate as set out in subsection (b). Such
14 application must be made at least 30 days, but not more than
15 90 days, before the effective date of participation in DROP.

16 "(g) Upon the effective date of the commencement in
17 DROP, the member's service shall remain as it existed on that
18 date for the duration of DROP. Once a member enters DROP,
19 service credit purchases are prohibited. Both the employer and
20 employee member contribution shall continue to be made. The
21 monthly retirement allowance that would have been payable, had
22 the person elected to withdraw from service and receive a
23 retirement allowance, shall be paid into a DROP account that
24 reflects the credits attributed to the person in DROP.
25 However, the monies shall remain a part of the regular
26 retirement fund until disbursed to the participating member in
27 accordance with this section. Any monies paid into this

1 account are subject to the exemptions set out in Section
2 36-27-28.

3 "(h) (1) The DROP account shall earn interest at the
4 same rate that interest is posted to active member accounts as
5 defined in subdivision (12) of Section 36-27-1. A person who
6 participates in this plan shall not be eligible to receive a
7 retiree cost-of-living increase while participating in DROP,
8 and shall not be eligible for a retiree cost-of-living
9 increase until participation in the plan ceases and he or she
10 withdraws from service and has been receiving a retirement
11 allowance for at least one full year.

12 "(2) Notwithstanding any other provision of this
13 chapter, for any member who has fulfilled his or her
14 obligation under DROP and does not retire and any member who
15 begins participation in DROP on or before April 1, 2011, and
16 fulfills his or her obligation under DROP and does not retire,
17 the amount of interest payable on member contributions shall
18 be the lesser of (1) the weekly average one-year constant
19 maturity yield, as published by the Board of Governors of the
20 Federal Reserve System, for the calendar week in which the
21 first day of the fiscal year following the year for which the
22 interest is to be credited falls, or (2) as provided in
23 subdivision (1) of subsection (c) of Section 36-27-16.

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

26 "(j) Participation in DROP shall not affect the
27 rights of any state employee under the state personnel system,

1 including, but not limited to, his or her rights to longevity
2 pay.

3 "(k) Participation in DROP shall not affect the
4 accrual of annual and sick leave by the participant.

5 "(l) Participants in DROP may receive salary
6 cost-of-living adjustments and salary increases.

7 "(m) No person may begin participation in DROP after
8 April 1, 2011."

9 Section 2. This act shall become effective
10 immediately following its passage and approval by the
11 Governor, or its otherwise becoming law.