

1 SB244  
2 115729-1  
3 By Senator Sanders  
4 RFD: Finance and Taxation Education  
5 First Read: 14-JAN-10

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8 SYNOPSIS: Currently the accrued liability  
9 contribution rate for the Teachers' 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 16-25-21, Code of Alabama, 1975 to  
20 increase the maximum funding period for which the accrued  
21 liability contribution is calculated for the Teachers'  
22 Retirement System from 20 years to 30 years.

23 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

24 Section 1. Section 16-25-21, Code of Alabama 1975 is  
25 hereby amended to read as follows:

26 "§16-25-21.

27 "Method of financing.

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

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

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

1 not exceed one tenth of one percent of the annual compensation  
2 upon the basis of which such deduction is to be made.

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

20 c. In addition to the contributions deducted from  
21 compensation as hereinbefore provided, subject to the approval  
22 of the Board of Control, any member may deposit in the Annuity  
23 Savings Fund by a single payment or by an increased rate of  
24 contribution an amount computed to be sufficient to purchase  
25 an additional annuity which, together with his prospective  
26 retirement allowance, will provide for him a total retirement  
27 allowance not to exceed one half of his average final

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

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

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

26 a. On account of each member there shall be paid  
27 monthly by the employer an amount equal to a certain

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

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

24 c.1. The accrued liability contribution rate shall  
25 be computed by the actuary on the basis of each valuation as  
26 the per centum rate of the total annual compensation of all  
27 members which is sufficient to liquidate the unfunded accrued

1 liability over a period to be determined by the Board of  
2 Control which shall be not less than 10 nor more than ~~20~~30  
3 years.

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

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

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

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

1 Accumulation Fund the amount of any surplus or deficit which  
2 may develop in the Annuity Savings Fund or the Expense Fund.

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

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

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



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

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

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

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

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

26 e. Where member contributions are made from salaries  
27 paid by the Alabama Education Association, the Alabama

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

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

14 g. Employer cost provided for in this article  
15 together with member contributions required under this article  
16 shall be paid to the Teachers' 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 Teachers' Retirement  
22 System in a format prescribed by the Teachers' 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.