

1 SB373  
2 158604-1  
3 By Senators Ross, Dunn, Coleman, Sanders, Figures, Irons,  
4 Beasley, and Bedford  
5 RFD: Finance and Taxation General Fund  
6 First Read: 18-FEB-14

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8 SYNOPSIS: Currently, members of the Teachers'  
9 Retirement System and the Employees' Retirement  
10 System may not be new participants in the DROP  
11 Program after April 1, 2011, and there are limits  
12 on interest that may be paid on DROP accounts.

13 This bill would reestablish the DROP,  
14 further provide for the DROP requirements and  
15 interest on accounts, and remove limits on interest  
16 that could be paid on DROP accounts.

17  
18 A BILL  
19 TO BE ENTITLED  
20 AN ACT

21  
22 Relating to the Deferred Retirement Option Plan; to  
23 amend Sections 16-25-150 and 36-27-170, Code of Alabama 1975,  
24 to allow new participation in the plan, to further provide for  
25 the plan requirements and interest on accounts, and to remove  
26 limits on interest paid on the accounts.

27 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

3           "§16-25-150.

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

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

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

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

20           "(3) Is eligible for service retirement.

21           "(c) An election to participate in DROP may be made  
22 in one year increments not to exceed five years, nor to be  
23 less than three years. A member may participate in DROP only  
24 one time. Any voluntary termination within the first three  
25 years in DROP will result in a forfeiture of the portion of  
26 his or her DROP account that constitutes the retirement  
27 allowance. However, member contributions will not be

1 forfeited, nor will any interest attributable to the  
2 retirement allowance. There will be no penalty forfeiture if  
3 the participation period is interrupted due to an involuntary  
4 dismissal, disability, involuntary transfer of his or her  
5 spouse, or death of the participant. After five years, the  
6 employee shall withdraw from active service upon completion of  
7 DROP. The employee shall not participate in full or part-time  
8 employment with the local school system upon completion of  
9 DROP.

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

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

21 "(f) The election to participate in DROP shall be  
22 made in accordance with procedures set forth in a uniform and  
23 nondiscriminatory election and application form adopted by the  
24 Board of Control. The election to participate in DROP may be  
25 made at any time on or after the date the member becomes  
26 eligible to participate as set out in subsection (b). Such  
27 application must be made at least 30 days, but not more than

1 90 days, before the effective date of participation in DROP,  
2 ~~and shall be made no later than March 24, 2011.~~ A member must  
3 be eligible to participate, as provided above at the time the  
4 application is made.

5 "(g) Upon the effective date of the commencement in  
6 DROP, the member's service shall remain as it existed on that  
7 date for the duration of DROP. Once a member enters DROP,  
8 service credit purchases are prohibited. Both the employer and  
9 employee member contribution shall continue to be made. Sixty  
10 percent of the ~~The~~ monthly retirement allowance that would  
11 have been payable, had the person elected to withdraw from  
12 service and receive a retirement allowance, shall be paid into  
13 a DROP account that reflects the credits attributed to the  
14 person in DROP. However, the monies shall remain a part of the  
15 regular retirement fund until disbursed to the participating  
16 member in accordance with this section. Any monies paid into  
17 this account are subject to the exemptions set out in Section  
18 16-25-23.

19 "(h) ~~(i)~~ The DROP account shall earn interest ~~at the~~  
20 ~~same rate that interest is posted to active member accounts as~~  
21 ~~defined in subdivision (15) of Section 16-25-1~~ on the lesser  
22 of two percent or the yield for two-year United States  
23 Treasury notes. A person who participates in this plan shall  
24 not be eligible to receive a retiree cost-of-living increase  
25 while participating in DROP, and shall not be eligible for a  
26 retiree cost-of-living increase until participation in the

1 plan ceases and he or she withdraws from service and has been  
2 receiving a retirement allowance for at least one full year.

3 ~~"(2) Notwithstanding any other provision of this~~  
4 ~~chapter, for any member who has fulfilled his or her~~  
5 ~~obligation under DROP and does not withdraw from service and~~  
6 ~~any member who begins participation in DROP on or before April~~  
7 ~~1, 2011, and fulfills his or her obligation under DROP and~~  
8 ~~does not withdraw from service, the amount of interest payable~~  
9 ~~on benefit deposits after March 24, 2011, shall be the lesser~~  
10 ~~of (1) the investment performance of the immediately preceding~~  
11 ~~fiscal year but no less than \$0, or (2) as provided in~~  
12 ~~subdivision (1) of subsection (d) of Section 16-25-151.~~

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

15 "(j) Participation in DROP shall not affect the  
16 rights of any education employee including, but not limited  
17 to, ~~the Fair Dismissal Act, Section 36-26-100 et seq., the~~  
18 ~~tenure law, Section 16-24-1, et seq.,~~ the Students First Act,  
19 Chapter 24C, Title 16, Code of Alabama 1975, or any other  
20 fringe benefit.

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

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

25 "§36-27-170.

26 "(a) As governed by this subsection, there exists as  
27 a part of this retirement system, an optional account known as

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

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

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

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

16 "(3) Is eligible for service retirement.

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

1 participant. After five years, the employee shall withdraw  
2 from active service upon completion of DROP. The employee  
3 shall not participate in full or part-time employment with the  
4 state upon completion of DROP.

5 "(d) A member who chooses to participate in DROP may  
6 elect an option allowance set out for members of the  
7 Employees' Retirement System in subsection (d) of Section  
8 36-27-16 at the beginning of the participation period.  
9 Otherwise, he or she shall receive the maximum benefit. Such  
10 election shall be irrevocable once the participation period  
11 begins except as otherwise provided in this chapter.

12 "(e) For purposes of DROP, sick leave may not be  
13 converted for purposes of establishing retirement eligibility,  
14 nor used in the calculation of the original retirement  
15 allowance except as provided in Section 36-27-171. A person  
16 electing to enter the DROP program is not eligible for a  
17 lump-sum payment for any annual or sick leave until withdrawal  
18 from service.

19 "(f) The election to participate in DROP shall be  
20 made in accordance with procedures set forth in a uniform and  
21 nondiscriminatory election and application form adopted by the  
22 Board of Control. The election to participate in DROP may be  
23 made at any time on or after the date the member becomes  
24 eligible to participate as set out in subsection (b). Such  
25 application must be made at least 30 days, but not more than  
26 90 days, before the effective date of participation in DROP,  
27 ~~and shall be made no later than March 24, 2011.~~ A member must



1 be eligible to participate, as provided above, at the time the  
2 application is made.

3 "(g) Upon the effective date of the commencement in  
4 DROP, the member's service shall remain as it existed on that  
5 date for the duration of DROP. Once a member enters DROP,  
6 service credit purchases are prohibited. Both the employer and  
7 employee member contribution shall continue to be made. Sixty  
8 percent of the ~~The~~ monthly retirement allowance that would  
9 have been payable, had the person elected to withdraw from  
10 service and receive a retirement allowance, shall be paid into  
11 a DROP account that reflects the credits attributed to the  
12 person in DROP. However, the monies shall remain a part of the  
13 regular retirement fund until disbursed to the participating  
14 member in accordance with this section. Any monies paid into  
15 this account are subject to the exemptions set out in Section  
16 36-27-28.

17 "(h) ~~(1)~~ The DROP account shall earn interest ~~at the~~  
18 ~~same rate that interest is posted to active member accounts as~~  
19 ~~defined in subdivision (12) of Section 36-27-1~~ on the lesser  
20 of two percent or the yield for two-year United States  
21 Treasury notes. A person who participates in this plan shall  
22 not be eligible to receive a retiree cost-of-living increase  
23 while participating in DROP, and shall not be eligible for a  
24 retiree cost-of-living increase until participation in the  
25 plan ceases and he or she withdraws from service and has been  
26 receiving a retirement allowance for at least one full year.

1           ~~"(2) Notwithstanding any other provision of this~~  
2 ~~chapter, for any member who has fulfilled his or her~~  
3 ~~obligation under DROP and does not withdraw from service and~~  
4 ~~any member who begins participation in DROP on or before April~~  
5 ~~1, 2011, and fulfills his or her obligation under DROP and~~  
6 ~~does not withdraw from service, the amount of interest payable~~  
7 ~~on benefit deposits after March 24, 2011, shall be the lesser~~  
8 ~~of (1) the investment performance of the immediately preceding~~  
9 ~~fiscal year but no less than \$0, or (2) as provided in~~  
10 ~~subdivision (1) of subsection (d) of Section 36-27-171.~~

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           Section 2. This act shall become effective on the  
22 first day of the third month following its passage and  
23 approval by the Governor, or its otherwise becoming law.