

1 HB475
2 128883-1
3 By Representative Ford
4 RFD: Ways and Means General Fund
5 First Read: 07-APR-11

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

A BILL
TO BE ENTITLED
AN ACT

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

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

§16-25-150.1.

(a) As governed by this subsection, there exists as a part of this retirement system an optional account known as 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 on 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. Further, the member shall
12 receive his or her accumulated contribution made during
13 participation in DROP, together with interest for the period
14 of DROP participation as provided in subdivision (1) of
15 subsection (g) of Section 16-25-14. In lieu of a lump-sum
16 payment from the DROP account, to the extent eligible under
17 applicable tax laws, the member's total accrued benefit may be
18 "rolled over" directly to the custodian of an eligible
19 retirement plan. The member shall also begin receiving his or
20 her monthly benefit which had been paid directly into the DROP
21 account during his or her participation in DROP. However, the
22 monthly benefit shall be recalculated prospectively to reflect
23 any accrued sick leave as credit for retirement purposes.
24 Conversion of sick leave is limited to the applicable laws
25 pertaining to conversion of sick leave into retirement credit.
26 In no event can the number of days converted be greater than
27 the number of days the participant had on the date he or she

1 entered DROP. The member is not allowed to change the option
2 allowance chosen at the beginning of DROP participation.

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

21 (3) Who did not fulfill his or her obligation under
22 DROP due to voluntary termination within the first three years
23 of participation shall forfeit his or her DROP account.
24 However, following termination of employment, the member shall
25 begin receiving his or her monthly benefit which had been paid
26 directly into the DROP account during his or her participation
27 in DROP. However, the monthly benefit shall be recalculated

1 prospectively to reflect any accrued sick leave as credit for
2 retirement purposes. Conversion of sick leave is limited to
3 the applicable laws pertaining to conversion of sick leave
4 into retirement credit. In no event can the number of days
5 converted be greater than the number of days the participant
6 had on the date he or she entered DROP. The member is not
7 allowed to change the option allowance chosen at the beginning
8 of DROP participation.

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

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

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

3 (2) If the member does not withdraw from service
4 after the period specified for participation in DROP, he or
5 she shall forfeit his or her DROP account and he or she shall
6 resume active contributing membership in the system for the
7 purpose of earning creditable service. Under no circumstance
8 will any time spent participating in DROP be eligible to
9 constitute service credit in any Alabama public supported
10 retirement system.

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

23 (2) Upon withdrawal from service, the member shall
24 receive an additional retirement benefit based on his or her
25 additional service rendered to the system since termination of
26 participating in DROP, using the normal method of computation
27 of benefit for that period only. This additional service shall

1 not be added to any service prior to his or her participation
2 in DROP. The member's average compensation for that time
3 worked after the participation in DROP shall be multiplied by
4 the appropriate benefit factor multiplied by the amount of
5 time worked after the participation in DROP. Under no
6 circumstances is this service to be combined with service
7 prior to participation in DROP.

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

10 (4) If the member dies or becomes disabled during
11 the period of additional service, he or she shall be
12 considered as having retired on the date of death or
13 commencement of disability. However, no death benefits
14 pursuant to subsection (g) of Section 16-25-14 or Section
15 36-27B-3 will be applicable.

16 §36-27-170.1.

17 (a) As governed by this subsection, there exists as
18 a part of this retirement system, an optional account known as
19 the Deferred Retirement Option Plan, which may be cited as
20 "DROP." The purpose of DROP is to allow, contractually, in
21 lieu of immediate withdrawal from service and receipt of a
22 retirement allowance, continued employment for a specific
23 period of time, coupled with the deferral of receipt of a
24 retirement allowance until the end of such period of
25 participation, at which time the member shall withdraw from
26 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 30 years of creditable service
5 exclusive of sick leave.

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

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

12 (c) An election to participate in DROP may be made
13 in one year increments not to exceed five years, nor to be
14 less than three years. A member may participate in DROP only
15 one time. Any voluntary termination within the first three
16 years in DROP will result in a forfeiture of all of the DROP
17 account, including the benefit deposits, member contributions,
18 and interest. There will be no forfeiture if the participation
19 period is interrupted due to disability, as defined by Social
20 Security, or death of the 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 36-27-171.1. 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 or he or she will forfeit the benefit deposits in the DROP
17 account, including member contribution, and all interest.

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

1 attributed to the person in DROP. However, the monies shall
2 remain a part of the regular retirement fund until disbursed
3 to the participating member in accordance with this section.
4 Any monies paid into this account are subject to the
5 exemptions set out in Section 36-27-28.

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

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

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

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

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

24 §36-27-171.1.

25 (a) On withdrawing from service pursuant to Section
26 36-27-16, a member who participated in DROP:

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

20 (2) Who did not fulfill his or her obligation under
21 DROP due to disability shall receive a lump-sum payment from
22 his or her DROP account equal to the payments made to that
23 account on his or her behalf plus interest. In lieu of a
24 lump-sum payment from the DROP account to the extent eligible
25 under applicable tax laws, the member's total accrued benefit
26 may be "rolled over" directly to the custodian of an eligible
27 retirement plan. The member shall also begin receiving his or

1 her monthly benefit which had been paid into the DROP account
2 during his or her participation in DROP. However, if
3 applicable laws allow, the monthly benefit may be recalculated
4 prospectively to reflect accrued sick leave as credit for
5 retirement purposes. If applicable laws allow, the participant
6 may elect to be paid for his or her sick leave as would any
7 other member upon retirement. In no event can the number of
8 sick leave days used for either calculation be greater than
9 the number of days the participant had on entry into DROP. The
10 member is not allowed to change the option allowance chosen at
11 the beginning of DROP participation.

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

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

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

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

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

1 constitute service credit in any Alabama public supported
2 retirement system.

3 (d) (1) Upon withdrawal from service, the member
4 shall receive an additional retirement benefit based on his or
5 her additional service rendered to the system since
6 termination of participating in DROP, using the normal method
7 of computation of benefit for that period only. This
8 additional service shall not be added to any service prior to
9 his or her participation in DROP. The member's average
10 compensation for that time worked after the participation in
11 DROP shall be multiplied by the appropriate benefit factor
12 multiplied by the amount of time worked after the
13 participation in DROP. Under no circumstances is this service
14 to be combined with service prior to participation in DROP.

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

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

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

9 Section 2. The provisions of this act are severable.
10 If any part of this act is declared invalid or
11 unconstitutional, that declaration shall not affect the part
12 which remains.

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