

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 254
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY REPRESENTATIVES JAMES BY REQUEST, Mulder

Introduced: 2/15/02

Referred: State Affairs, Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the teachers' retirement system, the judicial retirement system, and**
2 **the public employees' retirement system and to the tax qualification under the Internal**
3 **Revenue Code of those systems; amending the definition of 'actuarial adjustment' in the**
4 **teachers' retirement system and the public employees' retirement system; repealing**
5 **certain provisions of the teachers' retirement system and the public employees'**
6 **retirement system; and providing for an effective date."**

7 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

8 *** Section 1.** AS 14.25.010 is amended by adding a new subsection to read:

9 (b) The retirement system established by this chapter is intended to qualify
10 under 26 U.S.C. 401(a) and 414(d) (Internal Revenue Code) as a qualified retirement
11 plan established and maintained by the state for its employees, for the employees of
12 school districts and regional educational attendance areas in the state, and for the
13 employees of other employers whose participation is authorized by this chapter and

1 who participate in this system.

2 * **Sec. 2.** AS 14.25.030 is amended to read:

3 **Sec. 14.25.030. Duties of the administrator.** The administrator shall

4 (1) establish and maintain an adequate system of accounts for the
5 system;

6 (2) approve or disapprove claims for retirement benefits;

7 (3) serve as secretary of the Alaska Teachers' Retirement Board and
8 keep an official record of all proceedings;

9 (4) publish annually a report showing the financial condition of the
10 system; [AND]

11 (5) **publish an information handbook for the system at intervals as**
12 **the administrator considers appropriate; and**

13 **(6)** do whatever else may be necessary to carry out the purposes of this
14 chapter.

15 * **Sec. 3.** AS 14.25.050(a) is amended to read:

16 (a) Except as provided in (c) of this section, beginning January 1, 1991, each
17 teacher shall contribute to the system an amount equal to 8.65 percent of the teacher's
18 base salary accrued from July 1 to the following June 30. The employer shall deduct
19 the contribution from the teacher's salary at the end of each payroll period. The
20 contributions shall be deducted from employee compensation before the computation
21 of applicable federal taxes and shall be treated as employer contributions under 26
22 U.S.C. 414(h)(2). **A member may not have the option of making the payroll**
23 **deduction directly in cash instead of having the contribution picked up by the**
24 **employer.**

25 * **Sec. 4.** AS 14.25.070 is amended to read:

26 **Sec. 14.25.070. Contributions by employer.** An employer shall contribute to
27 the system an amount equal to the percentage, as certified by the administrator, of the
28 sum total of the base salaries of all teachers that is required in addition to teacher
29 contributions to provide the benefits of this chapter times the sum total of the base
30 salaries paid to teachers, **including any adjustments to contributions required by**
31 **AS 14.25.173(a),** by the employer.

1 * **Sec. 5.** AS 14.25 is amended by adding a new section to read:

2 **Sec. 14.25.075. Purchase of credited service.** (a) An employee who is
3 eligible to purchase credited service under AS 14.25.048, a member who is eligible to
4 purchase credited service under AS 14.25.060, 14.25.061, 14.25.100, or a teacher
5 who is eligible to purchase credited service under AS 14.25.105 is a member for
6 purposes of this section. A member, in lieu of making payments directly to the
7 system, may elect to have the member's employer make payments as provided in this
8 section.

9 (b) A member may elect to have the employer make payments for all or any
10 portion of the amounts payable for the member's purchase of credited service through
11 a salary reduction program as follows:

12 (1) the amounts paid under a salary reduction program are in lieu of
13 contributions by the member making the election; the electing member's salary or
14 other compensation shall be reduced by the amount paid by the employer under this
15 section;

16 (2) the member shall make an election under this section to purchase
17 credited service as permitted in AS 14.25.048, 14.25.060, 14.25.061, 14.25.100, or
18 14.25.105 before the member's termination of employment; the election must specify
19 the number of payroll periods that deductions will be made from the member's
20 compensation and the dollar amount of deductions for each payroll period during the
21 specified number of payroll periods;

22 (3) a member who makes an election under this section to have the
23 employer make payments for less than all of the amounts payable for the member's
24 purchase of credited service may subsequently elect to have the employer make
25 payments for all or any portion of the remaining amounts payable for the member's
26 purchase of credited service;

27 (4) amounts paid by an employer under this section shall be treated as
28 employer contributions for the purpose of determining tax treatment under 26 U.S.C.
29 (Internal Revenue Code); the amounts paid by the employer under this section may not
30 be included in the member's gross income for income tax purposes until those amounts
31 are distributed by refund or retirement benefit payments.

1 (c) Unless otherwise provided, member contributions paid by the employer
2 under this section are treated for all other purposes under the system in the same
3 manner and to the same extent as member contributions that are not paid by an
4 employer under this section and AS 14.25.050. The system may assess interest or
5 administrative charges attributable to any salary reduction election made under this
6 section. The interest or administrative charges shall be added to the contribution that
7 is made to the system by the member each payroll period, and that is paid by the
8 employer. The interest or administrative charges may not be treated as member
9 contributions for any purposes under this chapter, and a member or a member's
10 beneficiary does not have a right to the return of the interest or administrative charges
11 under any other provision of this section. Interest assessed under this section shall be
12 at the rate specified by regulations adopted by the board.

13 (d) For system fiscal years beginning on or after July 1, 2001, the
14 requirements of AS 14.25.110(k) may not be applied to reduce the amount of credited
15 service that may be purchased under this section by a member who first becomes an
16 employee of the system before July 1, 2001, to an amount that is less than the amount
17 of credited service allowed to be purchased with the application of any of the limits
18 prescribed in 26 U.S.C. 415.

19 (e) Contributions to the system to purchase credited service under this section
20 do not qualify for treatment under this section if recognition of that service would
21 cause a member to receive a retirement benefit for the same service from the system
22 and from one or more other retirement plans or systems of the state.

23 (f) To the extent that a payment under this section does not alter, amend, or
24 revoke any one or more currently effective elections made by the member, the board
25 may accept member contributions, which shall also be treated as employer
26 contributions for the purpose of determining tax treatment under 26 U.S.C. (Internal
27 Revenue Code), for the payment for credited service purchases made under this
28 section in whole or in part, by any one or a combination of the following methods:

29 (1) subject to the limitations prescribed in 26 U.S.C. 403(b)(13),
30 accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the
31 members, on and after January 1, 2002, from a tax sheltered annuity described in 26

1 U.S.C. 403(b); and

2 (2) subject to the limitations prescribed in 26 U.S.C. 457(e)(17),
3 accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the
4 members, on and after January 1, 2002, from an eligible deferred compensation plan
5 of a tax-exempt organization or a state or local government described in 26 U.S.C.
6 457(b).

7 (g) Payments made under this section shall be applied to reduce the member's
8 outstanding indebtedness described in AS 14.25.063 at the time that the contributions
9 are received by the system.

10 (h) If a member retires before all payments are made under this section, the
11 system shall calculate the member's benefits based only on the payments actually
12 made with respect to the credited service purchased.

13 (i) On satisfaction of the eligibility requirements of AS 14.25.048, 14.25.050,
14 14.25.061, 14.25.100, or 14.25.105, the requirements of this section, and the
15 administrative filing requirements specified by the board, the system shall adjust the
16 member's credited service history and add any additional service credits acquired.

17 (j) After an election is made under this section, the election is binding on and
18 irrevocable for the member and the member's employer during the member's
19 remaining period of current employment. After a member makes an irrevocable
20 election under this section, the member does not have the option of choosing to
21 receive the contributed amounts directly in cash.

22 * **Sec. 6.** AS 14.25.110 is amended by adding new subsections to read:

23 (k) Notwithstanding any other provision of this chapter, the projected annual
24 benefit provided by this chapter and the benefit from all other defined benefit plans
25 required to be aggregated with the benefits from this system under the provisions of 26
26 U.S.C. 415 may not increase to an amount in excess of the amount permitted under 26
27 U.S.C. 415 at any time. In the event that any projected annual benefit of a member
28 exceeds the limitation of 26 U.S.C. 415 for a limitation year, the system shall take any
29 necessary remedial action to correct an excess accrued benefit. The provisions of 26
30 U.S.C. 415, and the regulations adopted under that statute, as applied to qualified
31 defined benefit plans of governmental employers are incorporated as part of the terms

1 and conditions of the system. This subsection applies to any member of this system.

2 (l) Notwithstanding (d) of this section,

3 (1) for the system fiscal years beginning on or after January 1, 1996,
4 the base salary of a member who joined the system after the first day of the first
5 system fiscal year beginning after December 31, 1995, that is used to calculate the
6 member's average base salary may not exceed \$150,000, as adjusted for the cost of
7 living in accordance with 26 U.S.C. 401(a)(17)(B); and

8 (2) for system fiscal years beginning on or after January 1, 2002, the
9 base salary of a member that is used to calculate the member's average base salary
10 may not exceed \$200,000, as adjusted for the cost of living in accordance with 26
11 U.S.C. 401(a)(17)(B).

12 (m) Notwithstanding the definition of "base salary" in AS 14.25.220, in (l) of
13 this section, for system fiscal years beginning on or after January 1, 1998, and for
14 purposes of 26 U.S.C. 415(b)(3) and the regulations adopted under that statute,

15 (1) "base salary"

16 (A) includes any amount that is contributed by the employer
17 under a salary reduction agreement and that is not includable in the member's
18 gross income under 26 U.S.C. 125, 132(f)(4), 402(e)(3), 402(h), or 403(b); and

19 (B) is limited to compensation that is actually paid to a member
20 during the determination period;

21 (2) "determination period" means the system fiscal year.

22 * **Sec. 7.** AS 14.25 is amended by adding a new section to read:

23 **Sec. 14.25.163. Rollover distributions and rollover contributions.** (a) A
24 distributee may elect, at the time and in the manner prescribed by the administrator, to
25 have all or part of an eligible rollover distribution paid directly to an eligible
26 retirement plan specified by the distributee in the direct rollover.

27 (b) The system does not accept contributions of eligible rollover distributions.

28 (c) In this section,

29 (1) "direct rollover" means the payment of an eligible rollover
30 distribution by the system to an eligible retirement plan specified by a distributee who
31 is eligible to elect a direct rollover;

1 (2) "distributee" means a member or a beneficiary who is the surviving
2 spouse of the member;

3 (3) "eligible retirement plan"

4 (A) means

5 (i) an individual retirement account described in 26
6 U.S.C. 408(a);

7 (ii) an individual retirement annuity defined in 26
8 U.S.C. 408(b);

9 (iii) an annuity plan described in 26 U.S.C. 403(a);

10 (iv) a qualified trust described in 26 U.S.C. 401(a);

11 (v) on and after January 1, 2002, an annuity plan
12 described in 26 U.S.C. 403(b); or

13 (vi) on or after January 1, 2002, a governmental plan
14 described in 26 U.S.C. 457(b); and

15 (B) notwithstanding (A) of this paragraph, means, with respect
16 to distributions made before January 1, 2002, an individual retirement account
17 or an individual retirement annuity account described or defined in 26 U.S.C.
18 408 in the case of an eligible rollover distribution to a beneficiary who is the
19 surviving spouse of a member;

20 (4) "eligible rollover distribution" means a distribution of all or part of
21 a total account to a distributee, except for

22 (A) a distribution that is one of a series of substantially equal
23 installments payable not less frequently than annually over the life expectancy
24 of the distributee or the joint and last survivor life expectancy of the distributee
25 and the distributee's designated beneficiary, as defined in 26 U.S.C. 401(a)(9);

26 (B) a distribution that is one of a series of substantially equal
27 installments payable not less frequently than annually over a specified period
28 of 10 years or more;

29 (C) a distribution that is required under 26 U.S.C. 401(a)(9);

30 (D) the portion of any distribution that is not includable in
31 gross income;

1 (E) a distribution made on or after January 1, 2002, that is on
2 account of hardship; and

3 (F) other distributions that are reasonably expected to total less
4 than \$200 during a year.

5 * **Sec. 8.** AS 14.25 is amended by adding a new section to read:

6 **Sec. 14.25.165. Distribution requirements.** (a) The entire interest of a
7 member must be distributed or must begin to be distributed not later than the member's
8 required beginning date.

9 (b) If a member dies after the distribution of the member's interest has begun
10 but before the distribution has been completed, the remaining portion of the interest
11 shall continue to be distributed at least as rapidly as under the method of distribution
12 being used before the member's death.

13 (c) If a member has made a distribution election and dies before the
14 distribution of the member's interest begins, distribution of the member's entire interest
15 shall be completed by December 31 of the calendar year containing the fifth
16 anniversary of the member's death. However, if any portion of the member's interest
17 is payable to a designated beneficiary, distributions may be made over the life of the
18 designated beneficiary or over a period certain not greater than the life expectancy of
19 the designated beneficiary, commencing on or before December 31 of the calendar
20 year immediately following the calendar year in which the member died, and, if the
21 designated beneficiary is the member's surviving spouse, the date distributions are
22 required to begin may not be earlier than the later of December 31 of the calendar year
23 (1) immediately following the calendar year in which the member died, or (2) in which
24 the member would have attained 70 1/2 years of age, whichever is earlier. If the
25 surviving spouse dies after the member but before payments to the spouse have begun,
26 the provisions of this subsection apply as if the surviving spouse were the member.
27 An amount paid to a child of the member will be treated as if it were paid to the
28 surviving spouse if the amount becomes payable to the surviving spouse when the
29 child reaches the age of majority.

30 (d) If a member has not made a distribution election before the member's
31 death, the member's designated beneficiary must elect the method of distribution not

1 later than December 31 of the calendar year (1) in which distributions would be
 2 required to begin under this section, or (2) that contains the fifth anniversary of the
 3 date of death of the member, whichever is earlier. If the member does not have a
 4 designated beneficiary or if the designated beneficiary does not elect a method of
 5 distribution, distribution of the member's entire interest must be completed by
 6 December 31 of the calendar year containing the fifth anniversary of the member's
 7 death.

8 (e) For purposes of (c) of this section, distribution of a member's interest is
 9 considered to begin (1) on the member's required beginning date, or (2) if the
 10 designated beneficiary is the member's surviving spouse and the surviving spouse dies
 11 after the member but before payments to the spouse have begun, on the date
 12 distribution is required to begin to the surviving spouse. If distribution in the form of
 13 an annuity irrevocably commences to the member before the required beginning date,
 14 the date distribution is considered to begin is the date that the distribution actually
 15 commences.

16 (f) Notwithstanding any contrary provisions of this chapter, the requirements
 17 of this section apply to all distributions of a member's interest and take precedence
 18 over any inconsistent provisions of this chapter.

19 (g) All distributions required under this section are determined and made in
 20 accordance with 26 U.S.C. 401(a)(9) and regulations adopted under that statute,
 21 including any minimum distribution incidental benefit requirement.

22 (h) Unless otherwise specified, the provisions of this section apply to calendar
 23 years beginning on or after January 1, 1989.

24 (i) In this section,

25 (1) "designated beneficiary" means the individual who is designated as
 26 the beneficiary under the system in accordance with 26 U.S.C. 401(a)(9) and
 27 regulations adopted under that statute;

28 (2) "required beginning date" means the first day of April of the
 29 calendar year following the calendar year in which the member either attains 70 1/2
 30 years of age or actually retires, whichever is later.

31 * **Sec. 9.** AS 14.25.173(a) is amended to read:

1 (a) **When** [IF] a change or error is made in the records maintained by the
 2 system **or in the contributions made on behalf of an employee** or an error is made
 3 in computing a benefit, and, as a result, a teacher or member or beneficiary **is entitled**
 4 **to receive** [RECEIVES] from the system more or less than the teacher or member or
 5 beneficiary would have been entitled to receive had the records **or contributions** been
 6 correct or had the error not been made, (1) the records, **contributions,** or error shall be
 7 corrected, and (2) [,] as far as practicable, future payments **or benefit entitlement**
 8 shall be adjusted so that the actuarial equivalent of the pension or benefit to which the
 9 teacher or member or beneficiary was correctly entitled will be paid. **An adjustment**
 10 **to contributions shall be picked up by the employer in accordance with**
 11 **AS 14.25.050 or treated as an adjustment to the employer's contributions in**
 12 **accordance with this section, depending upon the nature of the adjustment.** If no
 13 future benefit payments are due, a person who was paid any amount to which the
 14 person was not entitled is liable for repayment of that amount, and a person who was
 15 not paid the full amount to which the person was entitled shall be paid that amount.

16 * **Sec. 10.** AS 14.25 is amended by adding a new section to read:

17 **Sec. 14.25.181. Exclusive benefit.** (a) The corpus or income of the assets
 18 held in trust as required by the system may not be diverted to or used for other than the
 19 exclusive benefit of the members or their beneficiaries.

20 (b) If, upon termination of the system, all liabilities are satisfied, any excess
 21 assets arising from erroneous actuarial computation shall revert to the employers on a
 22 pro rata basis.

23 * **Sec. 11.** AS 14.25 is amended by adding a new section to read:

24 **Sec. 14.25.195. Special rules for treatment of qualified military service.**
 25 Notwithstanding any contrary provisions of this chapter, with respect to qualified
 26 military service, contributions shall be made and benefits and service credit shall be
 27 provided in accordance with 26 U.S.C. 414(u).

28 * **Sec. 12.** AS 14.25.220(2) is amended to read:

29 (2) "actuarial adjustment" means **the adjustment necessary to obtain**
 30 equality in value of the aggregate expected payments under two different forms of
 31 pension payments, considering expected mortality and interest earnings on the basis of

1 tables **referred to in the information handbook published under AS 14.25.030(5)**
 2 [ADOPTED FROM TIME TO TIME BY THE BOARD];

3 * **Sec. 13.** AS 14.25.220(31) is amended to read:

4 (31) "qualified domestic relations order" means a divorce or
 5 dissolution judgment under AS 25.24, including an order approving a property
 6 settlement, that

7 (A) creates or recognizes the existence of an alternate payee's
 8 right to, or assigns to an alternate payee the right to, receive all or a portion of
 9 the member contribution account or benefits payable with respect to a member;

10 (B) sets out the name and last known mailing address, if any, of
 11 the member and of each alternate payee covered by the order;

12 (C) sets out the amount or percentage of the member's benefit,
 13 or of any survivor's benefit, to be paid to the alternate payee, or sets out the
 14 manner in which that amount or percentage is to be determined;

15 (D) sets out the number of payments or period to which the
 16 order applies;

17 (E) **sets out the plan to which the order applies;**

18 (F) does not require any type or form of benefit or any option
 19 not otherwise provided by this chapter;

20 (G) [(F)] does not require an increase of benefits in excess of
 21 the amount provided by this chapter, determined on the basis of actuarial
 22 value; and

23 (H) [(G)] does not require the payment, to an alternate payee,
 24 of benefits that are required to be paid to another alternate payee under another
 25 order previously determined to be a qualified domestic relations order;

26 * **Sec. 14.** AS 14.25.220 is amended by adding new paragraphs to read:

27 (44) "Internal Revenue Code" means the Internal Revenue Code of
 28 1986, as amended;

29 (45) "fiscal year" means the period beginning on July 1 and ending on
 30 June 30 of the following calendar year.

31 * **Sec. 15.** AS 22.25.011 is amended to read:

1 **Sec. 22.25.011. Contributions of judges and justices.** Each justice and
 2 judge appointed after July 1, 1978, shall contribute seven percent of the base annual
 3 salary received by the justice or judge to the judicial retirement system. Contributions
 4 shall be made for all creditable service under this chapter up to a maximum of 15
 5 years. This contribution is made in the form of a deduction from compensation, **at the**
 6 **end of each payroll period**, and is made even if the compensation paid in cash to the
 7 justice or judge is reduced below the minimum prescribed by law. **The contributions**
 8 **shall be deducted from justice's or judge's compensation before the computation**
 9 **of applicable federal taxes and shall be treated as employer contributions under**
 10 **26 U.S.C. 414(h)(2). A member may not have the option of making the payroll**
 11 **deduction directly in cash instead of having the contribution picked up by the**
 12 **employer.** Each justice and judge is considered to consent to the deduction from
 13 compensation. Payment of compensation less the deduction constitutes a full
 14 discharge of all claims and demands for the services rendered by the justice or judge
 15 during the period covered by the payment, except as to the benefits provided for under
 16 this chapter. The contributions shall be credited to the judicial retirement fund
 17 established in accordance with AS 22.25.048.

18 * **Sec. 16.** AS 22.25.020 is amended to read:

19 **Sec. 22.25.020. Retirement pay.** **Except as provided in AS 22.25.023(b), a**
 20 [A] retired justice or judge eligible for retirement pay shall receive from the date of
 21 eligibility until death monthly **retirement pay** [COMPENSATION] equal to five
 22 percent per year of service, to a maximum of 75 percent, of the monthly salary
 23 authorized for justices and judges, respectively, at the time each retirement payment is
 24 made. For a justice or judge who was first employed in this retirement system on or
 25 after July 1, 1996, base annual salary does not include remuneration in excess of the
 26 limitations set out in 26 U.S.C. 401(a)(17) (Internal Revenue Code).

27 * **Sec. 17.** AS 22.25 is amended by adding new sections to read:

28 **Sec. 22.25.021. Distribution requirements.** (a) The entire interest of a
 29 member must be distributed or must begin to be distributed not later than the member's
 30 required beginning date.

31 (b) If a member dies after the distribution of the member's interest has begun

1 but before the distribution has been completed, the remaining portion of the interest
2 shall continue to be distributed at least as rapidly as under the method of distribution
3 being used before the member's death.

4 (c) If a member has made a distribution election and dies before the
5 distribution of the member's interest begins, distribution of the member's entire interest
6 shall be completed by December 31 of the calendar year containing the fifth
7 anniversary of the member's death. However, if any portion of the member's interest
8 is payable to a designated beneficiary, distributions may be made over the life of the
9 designated beneficiary or over a period certain not greater than the life expectancy of
10 the designated beneficiary, commencing on or before December 31 of the calendar
11 year immediately following the calendar year in which the member died, and, if the
12 designated beneficiary is the member's surviving spouse, the date distributions are
13 required to begin may not be earlier than the later of December 31 of the calendar year
14 (1) immediately following the calendar year in which the member died, or (2) in which
15 the member would have attained 70 1/2 years of age, whichever is earlier. If the
16 surviving spouse dies after the member but before payments to the spouse have begun,
17 the provisions of this subsection apply as if the surviving spouse were the member.
18 An amount paid to a child of the member will be treated as if it were paid to the
19 surviving spouse if the amount becomes payable to the surviving spouse when the
20 child reaches the age of majority.

21 (d) If a member has not made a distribution election before the member's
22 death, the member's designated beneficiary must elect the method of distribution not
23 later than December 31 of the calendar year (1) in which distributions would be
24 required to begin under this section, or (2) that contains the fifth anniversary of the
25 date of death of the member, whichever is earlier. If the member does not have a
26 designated beneficiary or if the designated beneficiary does not elect a method of
27 distribution, distribution of the member's entire interest must be completed by
28 December 31 of the calendar year containing the fifth anniversary of the member's
29 death.

30 (e) For purposes of (c) of this section, distribution of a member's interest is
31 considered to begin (1) on the member's required beginning date, or (2) if the

1 designated beneficiary is the member's surviving spouse and the surviving spouse dies
 2 after the member but before payments to the spouse have begun, on the date
 3 distribution is required to begin to the surviving spouse. If distribution in the form of
 4 an annuity irrevocably commences to the member before the required beginning date,
 5 the date distribution is considered to begin is the date that the distribution actually
 6 commences.

7 (f) Notwithstanding any contrary provisions of this chapter, the requirements
 8 of this section apply to all distributions of a member's interest and take precedence
 9 over any inconsistent provisions of this chapter.

10 (g) All distributions required under this section are determined and made in
 11 accordance with 26 U.S.C. 401(a)(9) and regulations adopted under that statute,
 12 including any minimum distribution incidental benefit requirement.

13 (h) Unless otherwise specified, the provisions of this section apply to calendar
 14 years beginning on or after January 1, 1989.

15 (i) In this section,

16 (1) "designated beneficiary" means the individual who is designated as
 17 the beneficiary under the system in accordance with 26 U.S.C. 401(a)(9) and
 18 regulations adopted under that statute;

19 (2) "required beginning date" means the first day of April of the
 20 calendar year following the calendar year in which the member either attains 70 1/2
 21 years of age or actually retires, whichever is later.

22 **Sec. 22.25.022. Rollover distributions and rollover contributions.** (a) A
 23 distributee may elect, at the time and in the manner prescribed by the administrator, to
 24 have all or part of an eligible rollover distribution paid directly to an eligible
 25 retirement plan specified by the distributee in the direct rollover.

26 (b) The system does not accept contributions of eligible rollover distributions.

27 (c) In this section,

28 (1) "direct rollover" means the payment of an eligible rollover
 29 distribution by the system to an eligible retirement plan specified by a distributee who
 30 is eligible to elect a direct rollover;

31 (2) "distributee" means a member or a beneficiary who is the surviving

1 spouse of the member;

2 (3) "eligible retirement plan"

3 (A) means

4 (i) an individual retirement account described in 26
5 U.S.C. 408(a);

6 (ii) an individual retirement annuity defined in 26
7 U.S.C. 408(b);

8 (iii) an annuity plan described in 26 U.S.C. 403(a);

9 (iv) a qualified trust described in 26 U.S.C. 401(a);

10 (v) on and after January 1, 2002, an annuity plan
11 described in 26 U.S.C 403(b); or

12 (vi) on or after January 1, 2002, a governmental plan
13 described in 26 U.S.C 457(b); and

14 (B) notwithstanding (A) of this paragraph, means, with respect
15 to distributions made before January 1, 2002, an individual retirement account
16 or an individual retirement annuity account described or defined in 26 U.S.C.
17 408 in the case of an eligible rollover distribution to a beneficiary who is the
18 surviving spouse of a member;

19 (4) "eligible rollover distribution" means a distribution of all or part of
20 a total account to a distributee, except for

21 (A) a distribution that is one of a series of substantially equal
22 installments payable not less frequently than annually over the life expectancy
23 of the distributee or the joint and last survivor life expectancy of the distributee
24 and the distributee's designated beneficiary, as defined in 26 U.S.C. 401(a)(9);

25 (B) a distribution that is one of a series of substantially equal
26 installments payable not less frequently than annually over a specified period
27 of 10 years or more;

28 (C) a distribution that is required under 26 U.S.C. 401(a)(9);

29 (D) the portion of any distribution that is not includable in
30 gross income;

31 (E) a distribution made on or after January 1, 2002, that is on

1 account of hardship; and

2 (F) other distributions that are reasonably expected to total less
3 than \$200 during a year.

4 **Sec. 22.25.023. Limitation on benefits; maximum annual compensation.**

5 (a) Notwithstanding any other provisions of this chapter, the projected annual benefit
6 provided by this chapter and the benefit from all other defined benefit plans required
7 to be aggregated with the benefits from this system under the provisions of 26 U.S.C.
8 415 may not increase to an amount in excess of the amount permitted under 26 U.S.C.
9 415 at any time. In the event that any accrued benefit of a member exceeds the
10 limitation of 26 U.S.C. 415 for a limitation year, the system shall make any necessary
11 remedial action to correct an excess accrued benefit. The provisions of 26 U.S.C. 415,
12 and the regulations adopted under that statute, as applied to qualified defined benefit
13 plans of governmental employers are incorporated as part of the terms and conditions
14 of the system. This subsection shall apply to any member of this system.

15 (b) In this subsection, for system fiscal years beginning on or after January 1,
16 1998, and for purposes of 26 U.S.C. 415(b)(3) and the regulations adopted under that
17 statute, "salary" includes any amount that is contributed by the employer under a
18 salary reduction agreement and that is not includable in the member's gross income
19 under 26 U.S.C. 125, 132(f)(4), 402(e)(3), 402(h), or 403(b) and is limited to
20 compensation that is actually paid to a member during the determination period, which
21 is the fiscal year of the system.

22 * **Sec. 18.** AS 22.25.025 is amended to read:

23 **Sec. 22.25.025. Administration.** The commissioner of administration is
24 responsible for the administration of the judicial retirement system. **The system is**
25 **intended to qualify as a governmental plan established and maintained by the**
26 **government of this state for the state's employees, as permitted under 26 U.S.C.**
27 **414(d). The commissioner shall publish an information handbook for the system**
28 **at intervals as the commissioner considers appropriate.**

29 * **Sec. 19.** AS 22.25.030(a) is amended to read:

30 (a) Upon the death of a justice or judge who has served for at least two years,
31 the surviving spouse is entitled to receive **survivors' benefits** [MONTHLY

1 COMPENSATION] equal to one-half of the monthly retirement pay the justice or
 2 judge would thereafter have been entitled to receive if retired at the time of death. If
 3 at death the justice or judge was not yet entitled to retirement pay, or was or would
 4 have been entitled to less than 60 percent of the monthly salary authorized for the
 5 office, the surviving spouse is entitled to monthly **survivors' benefits**
 6 [COMPENSATION] equal to 30 percent of the salary authorized for justices or
 7 judges, respectively, at the time each monthly payment is made.

8 * **Sec. 20.** AS 22.25.048(a) is amended to read:

9 (a) The commissioner of administration shall establish a judicial retirement
 10 trust fund for the judicial retirement system in which the assets of the system are
 11 deposited and held. **The trust fund is subject to the restrictions of (h) of this**
 12 **section.** The commissioner shall maintain accounts and records for the system.

13 * **Sec. 21.** AS 22.25.048 is amended by adding new subsections to read:

14 (h) The corpus or income of the assets held in trust as required by the system
 15 may not be diverted to or used for other than the exclusive benefit of the members or
 16 their beneficiaries.

17 (i) If, upon termination of the system, all liabilities are satisfied, any excess
 18 assets arising from erroneous actuarial computation shall revert to the employer.

19 * **Sec. 22.** AS 22.25 is amended by adding a new section to read:

20 **Sec 22.25.110. Special rules for treatment of qualified military service.**

21 Notwithstanding any contrary provisions of this chapter, with respect to qualified
 22 military service, contributions shall be made and benefits and service credit shall be
 23 provided in accordance with 26 U.S.C. 414(u).

24 * **Sec. 23.** AS 22.25.900 is repealed and reenacted to read:

25 **Sec. 22.25.900. Definitions.** In this chapter, unless the context otherwise
 26 requires,

27 (1) "actuarial equivalent" means equality in value of the aggregate
 28 expected payments under two different forms of pension payments, considering
 29 expected mortality and interest earnings on the basis of tables referred to in the
 30 information handbook published under AS 22.25.025;

31 (2) "judge" means a judge of the court of appeals, a superior court

1 judge, or a district court judge;

2 (3) "justice" means a supreme court justice;

3 (4) "member" means an administrative director of the Alaska Court
4 System who is eligible to participate in the system, a justice, or a judge;

5 (5) "qualified domestic relations order" means a divorce or dissolution
6 judgment under AS 25.24, including an order approving a property settlement, that

7 (A) creates or recognizes the existence of an alternate payee's
8 right to, or assigns to an alternate payee the right to, receive all or a portion of
9 the member contributions and interest or benefits payable with respect to a
10 justice or judge;

11 (B) sets out the name and last known mailing address, if any, of
12 the justice or judge and of each alternate payee covered by the order;

13 (C) sets out the amount or percentage of the justice's or judge's
14 benefit, or of any survivor's benefit, to be paid to the alternate payee, or sets
15 out the manner in which that amount or percentage is to be determined;

16 (D) sets out the number of payments or period to which the
17 order applies;

18 (E) sets out the plan to which the order applies;

19 (F) does not require any type or form of benefit or any option
20 not otherwise provided by this chapter;

21 (G) does not require an increase of benefits in excess of the
22 amount provided by this chapter, determined on the basis of actuarial value;

23 (H) does not require the payment, to an alternate payee, of
24 benefits that are required to be paid to another alternate payee under another
25 order previously determined to be a qualified domestic relations order.

26 * **Sec. 24.** AS 39.35.010 is repealed and reenacted to read:

27 **Sec. 39.35.010. Purpose and effective date.** (a) The purpose of this chapter
28 is to encourage qualified personnel to enter and remain in the service of the state or a
29 political subdivision or public organization of the state by establishing a system for the
30 payment of retirement, disability, and death benefits to or on behalf of the employees.

31 (b) The Public Employees' Retirement System of Alaska is hereby created.

1 The system created becomes effective as of January 1, 1961, at which time
2 contributions by the state and its employees begin.

3 (c) The retirement system established by this chapter is intended to qualify
4 under 26 U.S.C. 401(a) and 414(d) (Internal Revenue Code) as a qualified retirement
5 plan established and maintained by the state for its employees and for the employees
6 of political subdivisions, public corporations, and public organizations of the state, and
7 for the employees of other employers whose participation is authorized by this chapter
8 and who participate in this system.

9 * **Sec. 25.** AS 39.35 is amended by adding a new section to read:

10 **Sec. 39.35.011. Exclusive benefit.** The corpus or income of the assets held in
11 trust as required by the system may not be diverted to or used for other than the
12 exclusive benefit of the members or their beneficiaries.

13 * **Sec. 26.** AS 39.35.060 is amended to read:

14 **Sec. 39.35.060. Duties of the administrator.** The administrator shall

15 (1) with the assistance of a technical actuarial advisor, submit to the
16 board the required actuarial tables and the statistical data necessary for periodic
17 actuarial surveys of the operating experience of the system;

18 (2) maintain records of the employees included in the system that are
19 necessary for the proper administration of the system and furnish information
20 requested by the actuary for preparing valuations and periodic experience analyses;

21 (3) attend meetings of the board and serve as secretary of the board;

22 (4) certify to the appropriate division of the Department of
23 Administration the payments made under this chapter;

24 (5) remit to the Department of Revenue, for deposit in the pension
25 fund, assets received for the account of the system;

26 (6) formulate and recommend to the board regulations to govern the
27 operation of the system;

28 (7) formulate and recommend to the board regulations to govern the
29 operation of the supplemental employee benefit program under AS 39.30.150 -
30 39.30.180;

31 **(8) publish an information handbook for the system at intervals as**

1 **the administrator considers appropriate.**

2 * **Sec. 27.** AS 39.35.160(a) is amended to read:

3 (a) Beginning January 1, 1987, each peace officer or fire fighter shall
 4 contribute to the system an amount equal to seven and one-half percent of the peace
 5 officer's or fire fighter's compensation. Except as provided in (d) of this section,
 6 beginning January 1, 1987, each other employee shall contribute to the system an
 7 amount equal to six and three-quarters percent of the employee's compensation. The
 8 contributions shall be deducted by the employer at the end of each payroll period. The
 9 contributions shall be deducted from employee compensation before computation of
 10 applicable federal taxes, and the contributions shall be treated as employer
 11 contributions under 26 U.S.C. 414(h)(2). **A member may not have the option of**
 12 **making the payroll deduction directly instead of having the contribution picked**
 13 **up by the employer.**

14 * **Sec. 28.** AS 39.35 is amended by adding a new section to read:

15 **Sec. 39.35.165. Purchase of credited service.** (a) An employee who is
 16 eligible to purchase credited service under AS 39.35.310, 39.35.330, 39.35.340,
 17 39.35.342, 39.35.345, 39.35.350, 39.35.360, or 39.35.370, or a member who is eligible
 18 to purchase credited service under AS 39.35.375 is an employee for purposes of this
 19 section. An employee may, in lieu of making payments directly to the system, elect to
 20 have the employee's employer make payments as provided in this section.

21 (b) An employee may elect to have the employer make payments for all or any
 22 portion of the amounts payable for the employee's purchase of credited service
 23 through a salary reduction program as follows:

24 (1) the amounts paid under a salary reduction program are in lieu of
 25 contributions by the employee making the election; the electing employee's salary or
 26 other compensation shall be reduced by the amount paid by the employer under this
 27 subsection;

28 (2) the employee shall make an election under this section to purchase
 29 credited service as permitted in AS 39.35.310, 39.35.330, 39.35.340, 39.35.342,
 30 39.35.345, 39.35.350, 39.35.360, 39.35.370, or 39.35.375 and before the employee's
 31 termination of employment; the election must specify the number of payroll periods

1 that deductions will be made from the employee's compensation and the dollar amount
2 of deductions for each payroll period during the specified number of payroll periods;

3 (3) an employee who makes an election under this section to have the
4 employer make payments for less than all of the amounts payable for the employee's
5 purchase of credited service may subsequently elect to have the employer make
6 payments for all or any portion of the remaining amounts payable for the employee's
7 purchase of credited service;

8 (4) amounts paid by an employer under this section shall be treated as
9 employer contributions for the purpose of determining tax treatment under the Internal
10 Revenue Code; the amounts paid by the employer under this section may not be
11 included in the member's gross income for income tax purposes until those amounts
12 are distributed by refund or retirement benefit payments.

13 (c) Unless otherwise provided, employee contributions paid by the employer
14 under this section are treated for all other purposes under the system in the same
15 manner and to the same extent as employee contributions that are not paid by an
16 employer under this section and AS 39.35.160. The system may assess interest or
17 administrative charges attributable to any salary reduction election made under this
18 section. The interest or administrative charges shall be added to the contribution that
19 is made to the system by the employee each payroll period, and that is paid by the
20 employer. The interest or administrative charges may not be treated as employee
21 contributions for any purposes under this chapter, and an employee or an employee's
22 beneficiary does not have a right to the return of the interest or administrative charges.
23 Interest assessed under this section shall be at the rate specified by regulations adopted
24 by the board.

25 (d) For system fiscal years beginning on or after July 1, 2001, the
26 requirements of AS 39.35.370(i) may not be applied to reduce the amount of credited
27 service that may be purchased, under this section by an employee who first becomes
28 an employee of the system before July 1, 2001, to an amount that is less than the
29 amount of credited service allowed to be purchased with the application of any of the
30 limits prescribed in 26 U.S.C. 415.

31 (e) Contributions to the system to purchase credited service do not qualify for

1 treatment under this section if recognition of that service would cause an employee to
 2 receive a retirement benefit for the same service from the system and from one or
 3 more other retirement plans or systems of the state.

4 (f) To the extent that a payment under this section does not alter, amend, or
 5 revoke any one or more currently effective elections made by the employee, the board
 6 may accept employee contributions, which shall also be treated as employer
 7 contributions for the purpose of determining tax treatment under the Internal Revenue
 8 Code, for the payment for credited service purchases made under this section in whole
 9 or in part, by any one or a combination of the following methods:

10 (1) subject to the limitations prescribed in 26 U.S.C. 401(a)(3) and 26
 11 U.S.C. 402(c), accepting eligible rollover distributions directly from one or more
 12 retirement programs of another employer that are qualified under 26 U.S.C. 401(a) or
 13 accepting rollovers directly from an employee;

14 (2) subject to the limitations prescribed in 26 U.S.C. 408(d)(3)(A)(ii),
 15 accepting from an employee conduit rollover contributions that are received by the
 16 employee from one or more conduit rollover individual retirement accounts previously
 17 established by the employee;

18 (3) subject to the limitations prescribed in 26 U.S.C. 403(b)(13),
 19 accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the
 20 employee, on and after January 1, 2002, from a tax sheltered annuity described in 26
 21 U.S.C. 403(b);

22 (4) subject to the limitations prescribed in 26 U.S.C. 457(e)(17),
 23 accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the
 24 employee, on and after January 1, 2002, from an eligible deferred compensation plan
 25 of a tax-exempt organization or a state or local government described in 26 U.S.C.
 26 457(b);

27 (5) accepting direct trustee-to-trustee transfer from an account
 28 established for the benefit of the member in AS 39.30.150 - 39.30.180 (Alaska
 29 Supplemental Annuity Plan).

30 (g) Payments made under this section shall be applied to reduce the
 31 employee's outstanding indebtedness described in AS 39.35.310, 39.35.330,

1 39.30.340, 39.35.342, 39.35.345, 39.35.350, 39.35.360, 39.35.370, or 39.35.375 at the
2 time that the contributions are received by the system.

3 (h) If an employee retires before all payments are made under this section, the
4 system shall calculate the employee's benefits based only on the payments actually
5 made with respect to the credited service purchased.

6 (i) On satisfaction of the eligibility requirements of AS 39.35.310, 39.35.330,
7 39.35.340, 39.35.341, 39.35.345, 39.35.350, 39.35.360, 39.35.370, or 39.35.375, the
8 requirements of this section and the administrative filing requirements specified by the
9 board, the system shall adjust the employee's credited service history and add any
10 additional service credits acquired.

11 (j) After an election is made under this section, the election is binding on and
12 irrevocable for the employee and the employee's employer during the employee's
13 remaining period of current employment, and the employee does not have the option
14 of choosing to receive the contributed amounts directly in cash.

15 * **Sec. 29.** AS 39.35 is amended by adding a new section to read:

16 **Sec. 39.35.195. Rollover distributions and rollover contributions.** (a) A
17 distributee may elect, at the time and in the manner prescribed by the administrator, to
18 have all or part of an eligible rollover distribution paid directly to an eligible
19 retirement plan specified by the distributee in the direct rollover.

20 (b) Except as provided by AS 39.35.165(f)(5), the system does not accept
21 contributions of eligible rollover distributions.

22 (c) In this section,

23 (1) "direct rollover" means the payment of an eligible rollover
24 distribution by the system to an eligible retirement plan specified by a distributee who
25 is eligible to elect a direct rollover;

26 (2) "distributee" means a member or a beneficiary who is the surviving
27 spouse of the member;

28 (3) "eligible retirement plan"

29 (A) means

30 (i) an individual retirement account described in 26
31 U.S.C. 408(a);

1 (ii) an individual retirement annuity defined in 26
2 U.S.C. 408(b);

3 (iii) an annuity plan described in 26 U.S.C. 403(a);

4 (iv) a qualified trust described in 26 U.S.C. 401(a);

5 (v) on and after January 1, 2002, an annuity plan
6 described in 26 U.S.C 403(b); or

7 (vi) on or after January 1, 2002, a governmental plan
8 described in 26 U.S.C 457(b); and

9 (B) notwithstanding (A) of this paragraph, means, with respect
10 to distributions made before January 1, 2002, an individual retirement account
11 or an individual retirement annuity account described or defined in 26 U.S.C.
12 408 in the case of an eligible rollover distribution to a beneficiary who is the
13 surviving spouse of a member;

14 (4) "eligible rollover distribution" means a distribution of all or part of
15 a total account to a distributee, except for

16 (A) a distribution that is one of a series of substantially equal
17 installments payable not less frequently than annually over the life expectancy
18 of the distributee or the joint and last survivor life expectancy of the distributee
19 and the distributee's designated beneficiary, as defined in 26 U.S.C. 401(a)(9);

20 (B) a distribution that is one of a series of substantially equal
21 installments payable not less frequently than annually over a specified period
22 of 10 years or more;

23 (C) a distribution that is required under 26 U.S.C. 401(a)(9);

24 (D) the portion of any distribution that is not includable in
25 gross income;

26 (E) a distribution made on or after January 1, 2002, that is on
27 account of hardship; and

28 (F) other distributions that are reasonably expected to total less
29 than \$200 during a year.

30 * **Sec. 30.** AS 39.35.270 is amended to read:

31 **Sec. 39.35.270. Amount of employer's contributions.** The amount of each

1 employer's contributions shall be determined by applying the employer's contribution
 2 rate to the total compensation paid to the active employees of the employer for each
 3 payroll period **and by including any adjustments to contributions required by**
 4 **AS 39.35.520(a)**. This amount shall be remitted by the employer to the administrator
 5 in accordance with AS 39.35.610.

6 * **Sec. 31.** AS 39.35.360 is amended by adding a new subsection to read:

7 (l) An administrative director of the Alaska Court System who withdraws
 8 from the judicial retirement system under AS 22.25.012(b) is eligible for membership
 9 in the public employees' retirement system and shall receive credited service in this
 10 system for service rendered as administrative director. To be eligible for membership
 11 in this system under this subsection, the administrative director must contribute to the
 12 system

13 (1) the amount that would have been contributed if the administrative
 14 director had been a member during the period of the membership in the judicial
 15 retirement system; and

16 (2) any contributions for service as administrative director refunded
 17 from the public employees' retirement system at the time the administrative director
 18 became a member of the judicial retirement system.

19 * **Sec. 32.** AS 39.35.370 is amended by adding new subsections to read:

20 (i) Notwithstanding any other provision of this chapter, the projected annual
 21 benefit provided by this chapter and the benefit from all other defined benefit plans
 22 required to be aggregated with the benefits from this system under the provisions of 26
 23 U.S.C. 415 may not increase to an amount in excess of the amount permitted under 26
 24 U.S.C. 415 at any time. In the event that any projected annual benefit of a member
 25 exceeds the limitation of 26 U.S.C. 415(g) for a limitation year, the system shall take
 26 any necessary remedial action to correct an excess accrued benefit. The provisions of
 27 26 U.S.C. 415, and the regulations adopted under that statute, as applied to qualified
 28 defined benefit plans of governmental employers are incorporated as part of the terms
 29 and conditions of the system. This subsection applies to any member of this system.

30 (j) Notwithstanding (c) of this section,

31 (1) for the system fiscal years beginning on or after January 1, 1996,

1 the annual compensation of a member who joined the system after the first day of the
 2 first system fiscal year beginning after December 31, 1995, that is used to calculate the
 3 member's average monthly compensation may not exceed \$150,000, as adjusted for
 4 the cost of living in accordance with 26 U.S.C. 401(a)(17)(B); and

5 (2) for the system fiscal years beginning on or after January 1, 2002,
 6 the annual compensation limitation for such a member, which is so taken into account
 7 for such a member which is so taken into account for such purposes, may not exceed
 8 \$200,000, as adjusted for the cost of living in accordance with 26 U.S.C.
 9 401(a)(17)(B).

10 (3) the cost of living adjustment in effect for a calendar year applies in
 11 this subsection to a determination period beginning in the calendar year.

12 (k) Notwithstanding the definition of "compensation" in AS 39.35.680, in (j)
 13 of this section, for system fiscal years beginning on or after January 1, 1998, and for
 14 purposes of 26 U.S.C. 415(b)(3) and the regulations adopted under that statute,

15 (1) "annual compensation"

16 (A) includes any amount that is contributed by the employer
 17 under a salary reduction agreement and that is not includable in the member's
 18 gross income under 26 U.S.C. 125, 132(f)(4), 402(e)(3), 402(h), or 403(b); and

19 (B) is limited to compensation that is actually paid to a member
 20 during the determination period;

21 (2) "determination period" means the system fiscal year.

22 * **Sec. 33.** AS 39.35 is amended by adding a new section to read:

23 **Sec. 39.35.371. Distribution requirements.** (a) The entire interest of a
 24 member must be distributed or must begin to be distributed not later than the member's
 25 required beginning date.

26 (b) If a member dies after the distribution of the member's interest has begun
 27 but before the distribution has been completed, the remaining portion of the interest
 28 shall continue to be distributed at least as rapidly as under the method of distribution
 29 being used before the member's death.

30 (c) If a member has made a distribution election and dies before the
 31 distribution of the member's interest begins, distribution of the member's entire interest

1 shall be completed by December 31 of the calendar year containing the fifth
2 anniversary of the member's death. However, if any portion of the member's interest
3 is payable to a designated beneficiary, distributions may be made over the life of the
4 designated beneficiary or over a period not greater than the life expectancy of the
5 designated beneficiary, commencing on or before December 31 of the calendar year
6 immediately following the calendar year in which the member died; and if the
7 designated beneficiary is the member's surviving spouse, the date distributions are
8 required to begin may not be earlier than the later of December 31 of the calendar year
9 (1) immediately following the calendar year in which the member died, or (2) in which
10 the member would have attained 70 1/2 years of age, whichever is earlier. If the
11 surviving spouse dies after the member but before payments to the spouse have begun,
12 the provisions of this subsection apply as if the surviving spouse were the member.
13 An amount paid to a child of the member will be treated as if it were paid to the
14 surviving spouse if the amount becomes payable to the surviving spouse when the
15 child reaches the age of majority.

16 (d) If a member has not made a distribution election before the member's
17 death, the member's designated beneficiary must elect the method of distribution not
18 later than December 31 of the calendar year (1) in which distributions would be
19 required to begin under this section, or (2) that contains the fifth anniversary of the
20 date of death of the member, whichever is earlier. If the member does not have a
21 designated beneficiary or if the designated beneficiary does not elect a method of
22 distribution, distribution of the member's entire interest must be completed by
23 December 31 of the calendar year containing the fifth anniversary of the member's
24 death.

25 (e) For purposes of (c) of this section, distribution of a member's interest is
26 considered to begin (1) on the member's required beginning date, or (2) if the
27 designated beneficiary is the member's surviving spouse and the surviving spouse dies
28 after the member but before payments to the spouse have begun, on the date
29 distribution is required to begin to the surviving spouse. If distribution in the form of
30 an annuity irrevocably commences to the member before the required beginning date,
31 the date distribution is considered to begin is the date that the distribution actually

1 commences.

2 (f) Notwithstanding any contrary provisions of this chapter, the requirements
3 of this section apply to all distributions of a member's interest and take precedence
4 over any inconsistent provisions of this chapter.

5 (g) All distributions required under this section are determined and made in
6 accordance with 26 U.S.C. 401(a)(9) and regulations adopted under that statute,
7 including any minimum distribution incidental benefit requirement.

8 (h) Unless otherwise specified, the provisions of this section apply to calendar
9 years beginning on or after January 1, 1989.

10 (i) In this section,

11 (1) "designated beneficiary" means the individual who is designated as
12 the beneficiary under the system in accordance with 26 U.S.C. 401(a)(9) and
13 regulations adopted under that statute;

14 (2) "required beginning date" means the first day of April of the
15 calendar year following the calendar year in which the member either attains 70 1/2
16 years of age or actually retires, whichever is later.

17 * **Sec. 34.** AS 39.35.520(a) is amended to read:

18 (a) When a change or error is made in the records maintained by the system **or**
19 **in the contributions made on behalf of an employee** [,] or an error is made in
20 computing a benefit, and, as a result, an employee or beneficiary **is entitled to receive**
21 [RECEIVES] from the system more or less than the employee would have been
22 entitled to receive had the records **or contributions** been correct or had the error not
23 been made, (1) the records, **contributions**, or error shall be corrected, and (2) as far as
24 practicable, future payments **or benefit entitlement** shall be adjusted so that the
25 actuarial equivalent of the pension or benefit to which the employee or beneficiary
26 was correctly entitled shall be paid. **An adjustment to contributions shall be picked**
27 **up by the employer under AS 39.35.160 or treated as an adjustment to the**
28 **employer's contributions under AS 39.35.270, depending upon the nature of the**
29 **adjustment.** If no future payment is due, a person who was paid any amount to which
30 the person was not entitled is liable for repayment of that amount, and a person who
31 was not paid the full amount to which the person was entitled shall be paid the balance

1 of that amount.

2 * **Sec. 35.** AS 39.35.546 is amended by adding a new subsection to read:

3 (b) Benefits paid under this chapter may be subject to federal income taxes as
4 provided in 26 U.S.C. 72.

5 * **Sec. 36.** AS 39.35 is amended by adding a new section to read:

6 **Sec 39.35.677. Special rules for treatment of qualified military service.**

7 Notwithstanding any contrary provisions of this chapter, with respect to qualified
8 military service, contributions shall be made, and benefits and service credit shall be
9 provided in accordance with 26 U.S.C. 414(u).

10 * **Sec. 37.** AS 39.35.680(2) is amended to read:

11 (2) "actuarial adjustment" means **the adjustment necessary to obtain**
12 equality in value of the aggregate expected payments under two different forms of
13 pension payments, considering expected mortality and interest earnings on the basis of
14 tables **referred to in the information handbook published under AS 39.35.060(8)**
15 [ADOPTED FROM TIME TO TIME BY THE BOARD];

16 * **Sec. 38.** AS 39.35.680(34) is amended to read:

17 (34) "qualified domestic relations order" means a divorce or
18 dissolution judgment under AS 25.24, including an order approving a property
19 settlement, that

20 (A) creates or recognizes the existence of an alternate payee's
21 right to, or assigns to an alternate payee the right to, receive all or a portion of
22 employee contribution account or the benefits payable with respect to an
23 employee;

24 (B) sets out the name and last known mailing address, if any, of
25 the employee and of each alternate payee covered by the order;

26 (C) sets out the amount or percentage of the employee's benefit,
27 or of any survivor's benefit, to be paid to the alternate payee, or sets out the
28 manner in which that amount or percentage is to be determined;

29 (D) sets out the number of payments or period to which the
30 order applies;

31 (E) **sets out the system to which the order applies;**

1 **(F)** does not require any type or form of benefit or any option
2 not otherwise provided by this chapter;

3 **(G)** [(F)] does not require an increase of benefits in excess of
4 the amount provided by this chapter, determined on the basis of actuarial
5 value; and

6 **(H)** [(G)] does not require the payment to an alternate payee of
7 benefits that are required to be paid to another alternate payee under another
8 order previously determined to be a qualified domestic relations order;

9 * **Sec. 39.** AS 14.25.110(f), 14.25.110(g), and 14.25.110(h); AS 22.25.010(g); and
10 AS 39.35.451 are repealed.

11 * **Sec. 40.** The uncodified law of the State of Alaska is amended by adding a new section to
12 read:

13 **APPLICABILITY OF CERTAIN CREDITED SERVICE PURCHASES UNDER**
14 **PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS.** (a) The provisions
15 of this Act listed below shall apply only after the Department of Administration receives
16 favorable rulings on each provision from the Internal Revenue Service that, under 26 U.S.C.
17 414(h)(2), the amounts paid by the employer will not be included in the member's gross
18 income for income tax purposes until those amounts are distributable by refund or retirement
19 benefit payment:

- 20 (1) the provisions of AS 14.25.075(b)(4), added by sec. 5 of this Act;
21 (2) the provisions of AS 39.35.165(b)(4), added by sec. 28 of this Act;
22 (3) the provisions of AS 39.35.165(f)(5), added by sec. 28 of this Act.

23 (b) The commissioner of administration shall promptly notify the revisor of statutes of
24 the dates that each of the rulings described in (a) of this section are received.

25 * **Sec. 41.** The uncodified law of the State of Alaska is amended by adding a new section to
26 read:

27 **RETROACTIVITY.** (a) The following provisions of this Act are retroactive to
28 January 1, 1989:

- 29 (1) AS 14.25.165, enacted by sec. 8 of this Act;
30 (2) AS 22.25.021, enacted by sec. 17 of this Act;
31 (3) AS 39.35.371, enacted by sec. 33 of this Act.

- 1 (b) The following provisions of this Act are retroactive to January 1, 1996:
- 2 (1) AS 14.25.110(l)(1), enacted by sec. 6 of this Act;
- 3 (2) AS 39.35.370(j)(1), enacted by sec. 32 of this Act.
- 4 (c) The following provisions of this Act are retroactive to January 1, 1998:
- 5 (1) AS 14.25.110(m), enacted by sec. 6 of this Act;
- 6 (2) AS 22.25.023(b), enacted by sec. 17 of this Act;
- 7 (3) AS 39.35.370(k), enacted by sec. 32 of this Act.
- 8 (d) The following provisions of this Act are retroactive to July 1, 2001:
- 9 (1) AS 14.25.075(d), enacted by sec. 5 of this Act;
- 10 (2) AS 39.35.165(d), enacted by sec. 28 of this Act.
- 11 (e) The following provisions of this Act are retroactive to January 1, 2002:
- 12 (1) AS 14.25.075(f), enacted by sec. 5 of this Act;
- 13 (2) AS 14.25.110(l)(2), enacted by sec. 6 of this Act;
- 14 (3) AS 39.35.165(f)(3) and (4), enacted by sec. 28 of this Act;
- 15 (4) AS 39.35.370(j)(2), enacted by sec. 32 of this Act.
- 16 * **Sec. 42.** This Act takes effect immediately under AS 01.10.070(c).