

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 254(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 3/1/02

Referred: Rules

Sponsor(s): REPRESENTATIVES JAMES BY REQUEST, Mulder

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; amending the statutory limitation on payment of warrants to make
7 an exception for warrants making benefit payments or refunds under various state
8 retirement and benefit programs; and providing for an effective date."

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

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

11 (b) The retirement system established by this chapter is intended to qualify
12 under 26 U.S.C. 401(a) and 414(d) (Internal Revenue Code) as a qualified retirement

1 plan established and maintained by the state for its employees, for the employees of
 2 school districts and regional educational attendance areas in the state, and for the
 3 employees of other employers whose participation is authorized by this chapter and
 4 who participate in this system.

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

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

7 (1) establish and maintain an adequate system of accounts for the
 8 system;

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

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

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

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

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

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

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

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

29 **Sec. 14.25.070. Contributions by employer.** An employer shall contribute to
 30 the system an amount equal to the percentage, as certified by the administrator, of the
 31 sum total of the base salaries of all teachers that is required in addition to teacher

1 contributions to provide the benefits of this chapter times the sum total of the base
 2 salaries paid to teachers, **including any adjustments to contributions required by**
 3 **AS 14.25.173(a)**, by the employer.

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

5 **Sec. 14.25.075. Purchase of credited service.** (a) An employee who is
 6 eligible to purchase credited service under AS 14.25.047 or 14.25.048, a member who
 7 is eligible to purchase credited service under AS 14.25.060, 14.25.061, or 14.25.100,
 8 or a teacher who is eligible to purchase credited service under AS 14.20.345,
 9 AS 14.25.050, or 14.25.105 is a member for purposes of this section. A member, in
 10 lieu of making payments directly to the system, may elect to have the member's
 11 employer make payments as provided in this section.

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

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

19 (2) the member shall make an election under this section to purchase
 20 credited service as permitted in AS 14.20.345, AS 14.25.047, 14.25.048, 14.25.050,
 21 14.25.060, 14.25.061, 14.25.100, or 14.25.105 before the member's termination of
 22 employment; the election must specify the number of payroll periods that deductions
 23 will be made from the member's compensation and the dollar amount of deductions
 24 for each payroll period during the specified number of payroll periods;

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

30 (4) amounts paid by an employer under this section shall be treated as
 31 employer contributions for the purpose of determining tax treatment under 26 U.S.C.

1 (Internal Revenue Code); the amounts paid by the employer under this section may not
2 be included in the member's gross income for income tax purposes until those amounts
3 are distributed by refund or retirement benefit payments.

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

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

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

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

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

5 (2) subject to the limitations prescribed in 26 U.S.C. 457(e)(17),
 6 accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the
 7 members, on and after January 1, 2002, from an eligible deferred compensation plan
 8 of a tax-exempt organization or a state **or local** government described in 26 U.S.C.
 9 457(b).

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

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

16 (i) On satisfaction of the eligibility requirements of AS 14.20.345,
 17 AS 14.25.047, 14.25.048, 14.25.050, 14.25.060, 14.25.061, 14.25.100, or
 18 14.25.105, the requirements of this section, and the administrative filing requirements
 19 specified by the board, the system shall adjust the member's credited service history
 20 and add any additional service credits acquired.

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

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

27 (k) Notwithstanding any other provision of this chapter, the projected annual
 28 benefit provided by this chapter and the benefit from all other defined benefit plans
 29 required to be aggregated with the benefits from this system under the provisions of 26
 30 U.S.C. 415 may not increase to an amount in excess of the amount permitted under 26
 31 U.S.C. 415 at any time. In the event that any projected annual benefit of a member

1 exceeds the limitation of 26 U.S.C. 415 for a limitation year, the system shall take any
 2 necessary remedial action to correct an excess accrued benefit. The provisions of 26
 3 U.S.C. 415, and the regulations adopted under that statute, as applied to qualified
 4 defined benefit plans of governmental employers are incorporated as part of the terms
 5 and conditions of the system. This subsection applies to any member of this system.

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

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

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

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

19 (1) "base salary"

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

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

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

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

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

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

1 (c) In this section,

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

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

7 (3) "eligible retirement plan"

8 (A) means

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

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

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

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

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

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

19 (B) notwithstanding (A) of this paragraph, means, with respect
20 to distributions made before January 1, 2002, an individual retirement account
21 or an individual retirement annuity account described or defined in 26 U.S.C.
22 408 in the case of an eligible rollover distribution to a beneficiary who is the
23 surviving spouse of a member;

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

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

30 (B) a distribution that is one of a series of substantially equal
31 installments payable not less frequently than annually over a specified period

1 of 10 years or more;

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

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

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

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

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

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

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

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

1 surviving spouse if the amount becomes payable to the surviving spouse when the
2 child reaches the age of majority.

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

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

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

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

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

28 (i) In this section,

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

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

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

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

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

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

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

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

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

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

2 (2) "actuarial adjustment" means **the adjustment necessary to obtain**
 3 equality in value of the aggregate expected payments under two different forms of
 4 pension payments, considering expected mortality and interest earnings on the basis of
 5 tables **referred to in the information handbook published under AS 14.25.030(5)**
 6 [ADOPTED FROM TIME TO TIME BY THE BOARD];

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

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

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

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

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

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

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

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

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

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

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

31 (44) "Internal Revenue Code" means the Internal Revenue Code of

1 1986, as amended;

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

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

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

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

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

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

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

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

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

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

1 December 31 of the calendar year containing the fifth anniversary of the member's
2 death.

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

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

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

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

19 (i) In this section,

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

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

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

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

31 (c) In this section,

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

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

6 (3) "eligible retirement plan"

7 (A) means

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

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

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

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

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

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

18 (B) notwithstanding (A) of this paragraph, means, with respect
 19 to distributions made before January 1, 2002, an individual retirement account
 20 or an individual retirement annuity account described or defined in 26 U.S.C.
 21 408 in the case of an eligible rollover distribution to a beneficiary who is the
 22 surviving spouse of a member;

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

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

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

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

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

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

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

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

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

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

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

27 **Sec. 22.25.025. Administration.** The commissioner of administration is
28 responsible for the administration of the judicial retirement system. **The system is**
29 **intended to qualify as a governmental plan established and maintained by the**
30 **government of this state for the state's employees, as permitted under 26 U.S.C.**
31 **414(d). The commissioner shall publish an information handbook for the system**

1 **at intervals as the commissioner considers appropriate.**

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

3 (a) Upon the death of a justice or judge who has served for at least two years,
4 the surviving spouse is entitled to receive **survivors' benefits** [MONTHLY
5 COMPENSATION] equal to one-half of the monthly retirement pay the justice or
6 judge would thereafter have been entitled to receive if retired at the time of death. If
7 at death the justice or judge was not yet entitled to retirement pay, or was or would
8 have been entitled to less than 60 percent of the monthly salary authorized for the
9 office, the surviving spouse is entitled to monthly **survivors' benefits**
10 [COMPENSATION] equal to 30 percent of the salary authorized for justices or
11 judges, respectively, at the time each monthly payment is made.

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

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

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

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

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

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

24 **Sec 22.25.110. 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. 23.** AS 22.25.900 is repealed and reenacted to read:

29 **Sec. 22.25.900. Definitions.** In this chapter, unless the context otherwise
30 requires,

31 (1) "actuarial equivalent" means equality in value of the aggregate

1 expected payments under two different forms of pension payments, considering
 2 expected mortality and interest earnings on the basis of tables referred to in the
 3 information handbook published under AS 22.25.025;

4 (2) "judge" means a judge of the court of appeals, a superior court
 5 judge, or a district court judge;

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

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

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

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

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

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

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

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

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

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

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

30 * **Sec. 24.** AS 37.05.180 is amended to read:

31 **Sec. 37.05.180. Two-year limitation on payment of warrants.** A warrant

1 upon the state treasury may not be paid unless presented at the office of the
 2 commissioner of revenue within two years of the date of its issuance. A warrant not
 3 presented within that time is considered paid, and money held at the expiration of that
 4 time in a special fund or account for the payment of the warrant shall be transferred to
 5 the general fund, except where the warrant is for the payment of a permanent fund
 6 dividend, a benefit payment or refund under AS 14.25, AS 22.25, AS 26.05,
 7 AS 39.30, AS 39.35, AS 39.37, or AS 39.45, or where transfer is prohibited by the
 8 federal government for state participation in a federal program.

9 * **Sec. 25.** AS 39.35.010 is repealed and reenacted to read:

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

14 (b) The Public Employees' Retirement System of Alaska is hereby created.
 15 The system created becomes effective as of January 1, 1961, at which time
 16 contributions by the state and its employees begin.

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

23 * **Sec. 26.** AS 39.35 is amended by adding a new section to read:

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

27 * **Sec. 27.** AS 39.35.060 is amended to read:

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

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

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

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

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

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

9 (6) formulate and recommend to the board regulations to govern the
 10 operation of the system;

11 (7) formulate and recommend to the board regulations to govern the
 12 operation of the supplemental employee benefit program under AS 39.30.150 -
 13 39.30.180;

14 **(8) publish an information handbook for the system at intervals as**
 15 **the administrator considers appropriate.**

16 * **Sec. 28.** AS 39.35.160(a) is amended to read:

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

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

29 **Sec. 39.35.165. Purchase of credited service.** (a) An employee who is
 30 eligible to purchase credited service under AS 39.35.310, 39.35.330, 39.35.340,
 31 39.35.342, 39.35.345, 39.35.350, 39.35.360, 39.35.370, a member who is eligible to

1 purchase credited service under AS 39.35.375, or an elected public official who is
2 eligible to purchase credited service under AS 39.35.381 is an employee for purposes
3 of this section. An employee may, in lieu of making payments directly to the system,
4 elect to have the employee's employer make payments as provided in this section.

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

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

12 (2) the employee shall make an election under this section to purchase
13 credited service as permitted in AS 39.35.310, 39.35.330, 39.35.340, 39.35.342,
14 39.35.345, 39.35.350, 39.35.360, 39.35.370, 39.35.375, or 39.35.381 and before the
15 employee's termination of employment; the election must specify the number of
16 payroll periods that deductions will be made from the employee's compensation and
17 the dollar amount of deductions for each payroll period during the specified number of
18 payroll periods;

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

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

29 (c) Unless otherwise provided, employee contributions paid by the employer
30 under this section are treated for all other purposes under the system in the same
31 manner and to the same extent as employee contributions that are not paid by an

1 employer under this section and AS 39.35.160. The system may assess interest or
2 administrative charges attributable to any salary reduction election made under this
3 section. The interest or administrative charges shall be added to the contribution that
4 is made to the system by the employee each payroll period, and that is paid by the
5 employer. The interest or administrative charges may not be treated as employee
6 contributions for any purposes under this chapter, and an employee or an employee's
7 beneficiary does not have a right to the return of the interest or administrative charges.
8 Interest assessed under this section shall be at the rate specified by regulations adopted
9 by the board.

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

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

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

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

30 (2) subject to the limitations prescribed in 26 U.S.C. 408(d)(3)(A)(ii),
31 accepting from an employee conduit rollover contributions that are received by the

1 employee from one or more conduit rollover individual retirement accounts previously
2 established by the employee;

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

7 (4) subject to the limitations prescribed in 26 U.S.C. 457(e)(17),
8 accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the
9 employee, on and after January 1, 2002, from an eligible deferred compensation plan
10 of a tax-exempt organization or a state or local government described in 26 U.S.C.
11 457(b);

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

15 (g) Payments made under this section shall be applied to reduce the
16 employee's outstanding indebtedness described in AS 39.35.310, 39.35.330,
17 39.30.340, 39.35.342, 39.35.345, 39.35.350, 39.35.360, 39.35.370, 39.35.375, or
18 39.35.381 at the time that the contributions are received by the system.

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

22 (i) On satisfaction of the eligibility requirements of AS 39.35.310, 39.35.330,
23 39.35.340, 39.35.341, 39.35.345, 39.35.350, 39.35.360, 39.35.370, 39.35.375, or
24 39.35.381, the requirements of this section and the administrative filing requirements
25 specified by the board, the system shall adjust the employee's credited service history
26 and add any additional service credits acquired.

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

31 * **Sec. 30.** AS 39.35 is amended by adding a new section to read:

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

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

7 (c) In this section,

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

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

13 (3) "eligible retirement plan"

14 (A) means

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

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

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

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

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

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

25 (B) notwithstanding (A) of this paragraph, means, with respect
 26 to distributions made before January 1, 2002, an individual retirement account
 27 or an individual retirement annuity account described or defined in 26 U.S.C.
 28 408 in the case of an eligible rollover distribution to a beneficiary who is the
 29 surviving spouse of a member;

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

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

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

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

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

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

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

15 * **Sec. 31.** AS 39.35.270 is amended to read:

16 **Sec. 39.35.270. Amount of employer's contributions.** The amount of each
 17 employer's contributions shall be determined by applying the employer's contribution
 18 rate to the total compensation paid to the active employees of the employer for each
 19 payroll period **and by including any adjustments to contributions required by**
 20 **AS 39.35.520(a)**. This amount shall be remitted by the employer to the administrator
 21 in accordance with AS 39.35.610.

22 * **Sec. 32.** AS 39.35.360 is amended by adding a new subsection to read:

23 (l) An administrative director of the Alaska Court System who withdraws
 24 from the judicial retirement system under AS 22.25.012(b) is eligible for membership
 25 in the public employees' retirement system and shall receive credited service in this
 26 system for service rendered as administrative director. To be eligible for membership
 27 in this system under this subsection, the administrative director must contribute to the
 28 system

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

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

4 * **Sec. 33.** AS 39.35.370 is amended by adding new subsections to read:

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

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

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

21 (2) for the system fiscal years beginning on or after January 1, 2002,
 22 the annual compensation limitation for such a member, which is so taken into account
 23 for such a member which is so taken into account for such purposes, may not exceed
 24 \$200,000, as adjusted for the cost of living in accordance with 26 U.S.C.
 25 401(a)(17)(B).

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

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

31 (1) "annual compensation"

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

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

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

7 * **Sec. 34.** AS 39.35 is amended by adding a new section to read:

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

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

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

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

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

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

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

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

26 (i) In this section,

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

30 (2) "required beginning date" means the first day of April of the
31 calendar year following the calendar year in which the member either attains 70 1/2

1 years of age or actually retires, whichever is later.

2 * **Sec. 35.** AS 39.35.520(a) is amended to read:

3 (a) When a change or error is made in the records maintained by the system **or**
 4 **in the contributions made on behalf of an employee** [,] or an error is made in
 5 computing a benefit, and, as a result, an employee or beneficiary **is entitled to receive**
 6 [RECEIVES] from the system more or less than the employee would have been
 7 entitled to receive had the records **or contributions** been correct or had the error not
 8 been made, (1) the records, **contributions**, or error shall be corrected, and (2) as far as
 9 practicable, future payments **or benefit entitlement** shall be adjusted so that the
 10 actuarial equivalent of the pension or benefit to which the employee or beneficiary
 11 was correctly entitled shall be paid. **An adjustment to contributions shall be picked**
 12 **up by the employer under AS 39.35.160 or treated as an adjustment to the**
 13 **employer's contributions under AS 39.35.270, depending upon the nature of the**
 14 **adjustment.** If no future payment is due, a person who was paid any amount to which
 15 the person was not entitled is liable for repayment of that amount, and a person who
 16 was not paid the full amount to which the person was entitled shall be paid the balance
 17 of that amount.

18 * **Sec. 36.** AS 39.35.546 is amended by adding a new subsection to read:

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

21 * **Sec. 37.** AS 39.35 is amended by adding a new section to read:

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

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

26 * **Sec. 38.** AS 39.35.680(2) is amended to read:

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

1 * **Sec. 39.** AS 39.35.680(34) is amended to read:

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

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

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

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

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

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

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

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

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

25 * **Sec. 40.** AS 14.25.110(f), 14.25.110(g), and 14.25.110(h); AS 22.25.010(g); and
26 AS 39.35.451 are repealed.

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

29 APPLICABILITY OF CERTAIN CREDITED SERVICE PURCHASES UNDER
30 PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS. (a) The provisions
31 of this Act listed below shall apply only after the Department of Administration receives

1 favorable rulings on each provision from the Internal Revenue Service that, under 26 U.S.C.
 2 414(h)(2), the amounts paid by the employer will not be included in the member's gross
 3 income for income tax purposes until those amounts are distributable by refund or retirement
 4 benefit payment:

- 5 (1) the provisions of AS 14.25.075(b)(4), added by sec. 5 of this Act;
- 6 (2) the provisions of AS 39.35.165(b)(4), added by sec. 29 of this Act;
- 7 (3) the provisions of AS 39.35.165(f)(5), added by sec. 29 of this Act.

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

10 * **Sec. 42.** The uncodified law of the State of Alaska is amended by adding a new section to
 11 read:

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

- 14 (1) AS 14.25.165, enacted by sec. 8 of this Act;
- 15 (2) AS 22.25.021, enacted by sec. 17 of this Act;
- 16 (3) AS 39.35.371, enacted by sec. 34 of this Act.

17 (b) The following provisions of this Act are retroactive to January 1, 1996:

- 18 (1) AS 14.25.110(l)(1), enacted by sec. 6 of this Act;
- 19 (2) AS 39.35.370(j)(1), enacted by sec. 33 of this Act.

20 (c) The following provisions of this Act are retroactive to January 1, 1998:

- 21 (1) AS 14.25.110(m), enacted by sec. 6 of this Act;
- 22 (2) AS 22.25.023(b), enacted by sec. 17 of this Act;
- 23 (3) AS 39.35.370(k), enacted by sec. 33 of this Act.

24 (d) The following provisions of this Act are retroactive to July 1, 2001:

- 25 (1) AS 14.25.075(d), enacted by sec. 5 of this Act;
- 26 (2) AS 39.35.165(d), enacted by sec. 29 of this Act.

27 (e) The following provisions of this Act are retroactive to January 1, 2002:

- 28 (1) AS 14.25.075(f), enacted by sec. 5 of this Act;
- 29 (2) AS 14.25.110(l)(2), enacted by sec. 6 of this Act;
- 30 (3) AS 39.35.165(f)(3) and (4), enacted by sec. 29 of this Act;
- 31 (4) AS 39.35.370(j)(2), enacted by sec. 33 of this Act.

1 * **Sec. 43.** This Act takes effect immediately under AS 01.10.070(c).