

HB

254

Alaska State Legislature

REPRESENTATIVE
JEANNETTE JAMES

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North Pole, Alaska 99705
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While in Juneau
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Juneau, Alaska
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House of Representatives
House District 34

Sponsor Statement

House Bill 254

TAX-QUALIFIED STATE RETIREMENT SYSTEMS

2/12/02

HB 254 is necessary to ensure tax qualification of the State of Alaska's employee retirement systems, including the Public Employees' Retirement System, the Teachers' Retirement System, and the Judicial Retirement System. This legislation is technical in nature, addressing Internal Revenue Code requirements necessary for continued plan qualification.

Enactment of this legislation will benefit public employees and teachers by allowing them to purchase service credit in their retirement plans with transfers of pre-tax savings in certain plans allowed by the Internal Revenue Code or payroll deductions. The provisions in this legislation allowing such purchases are allowed under new federal pension legislation, but incorporation in Alaska statute is necessary for Alaska public employees and teachers to take advantage of them.

I urge prompt action on this legislation.

Alaska Government Finance Officers Association

Resolution No. 01-03

A Resolution of the Alaska Government Finance Officers Association Supporting Legislation That Makes the Alaska Retirement System Statutes Consistent with the 2001 Tax Relief Act

Whereas, the U.S. Congress passed the 2001 Tax Relief Act which made significant positive changes in the laws governing public employees Section 457 deferred compensation plans; and

Whereas, in order to take full advantage of the new law, changes need to be made to the State of Alaska retirement plan statutes; and

Whereas, House Bill 254, introduced by Representative Jeanette James, and supported by the Alaska Division of Retirement and Benefits, is intended to address the necessary changes; and

Whereas, enactment of this legislation will benefit public sector employers and employees; and

Whereas, this legislation has no adverse impact on the state or its political subdivisions,

Now, Therefore be it resolved by the Alaska Government Finance Officers Association (AGFOA) that:

Section 1. The members of the AGFOA strongly support enactment of legislation which makes changes to Alaska Retirement System statutes to allow full utilization of federal law changes under the 2001 Tax Relief Act.

Section 2. This resolution be forwarded to the AML for distribution to appropriate legislators and committees.

Adopted by the membership of the Alaska Government Finance Officers Association this 27th day November 2001.



APPROVED:

Catherine Wallace
Catherine Wallace, President
Alaska Government Finance Officers Association

ATTEST:

Robin Feltman
Robin Feltman, President Elect
Alaska Government Finance Officers Association

Internal Revenue Code Compliance Legislation - House Bill 254
Division of Retirement and Benefits - Section by Section Analysis

Sections 1 - 14 Apply to the Teachers' Retirement System

Section 1 Clarifies that the Teachers' Retirement System (TRS) is intended to be a qualified retirement plan under the Internal Revenue Code. TRS must maintain its qualified status in order to ensure that members receive favorable tax treatment of contributions made on their behalf and of distributions that they receive from the plan. Except as otherwise noted, none of the amendments in this bill will alter current practice.

Section 2 Adds member information handbook as a statutory requirement in TRS. This is current practice.

Section 3 Adds mandatory language relating to Internal Revenue Code requirement that contributions deducted from employee salaries be treated as employer contributions. This requires the contribution to be made by a payroll deduction and not a separate post tax payment that is converted to pre-tax monies. This is necessary for these contributions to be taken pre-tax. This is current practice.

Section 4 Clarifies that employer contributions to TRS include any adjustments to contributions as a result of a change or error made in the contributions made on behalf of an employee. This is current practice.

Section 5 Adds language allowing purchase of service credit in TRS using pre-tax money in other tax deferred plans (from a 403(b) Tax Sheltered Annuity or a 457 Deferred Compensation Plan). It also allows purchase of service credit through pre-tax payroll deductions. The language in this section is drafted to comply with the requirements of the IRS.

Section 6 Adds mandatory language prohibiting TRS from paying benefits in excess of the maximum permitted under section 415 of the Internal Revenue Code and limiting compensation taken into account for plan purposes in accordance with section 401(a)(17) of the Code.

Section 7 Allows direct rollover of TRS employee contribution accounts to an eligible retirement plan. Section 401(a)(30) of the Internal Revenue Code requires qualified plans to permit such rollovers. This is current practice.

Section 8. Conforms the plan's distribution provisions to the minimum distribution requirements of section 401(a)(9) of the Internal Revenue Code.

Section 9 Adds reference to change or error in contributions made on behalf of a TRS employee.

Section 10 Specifies that the money in the TRS trust is for the exclusive benefit of the members and their beneficiaries. Specifies what occurs if the system is terminated. These provisions are required by section 401(a)(2) of the Internal Revenue Code.

Section 11 Conforms plan provisions to the requirements of the Uniformed Services Employment and Reemployment Rights Act, under which the plan must treat certain service in the Armed Forces by returning veterans as service with the employer.

Section 12 Conforms plan provisions to the requirement of section 401(a)(25) of the Internal Revenue Code that actuarial assumptions used to determine benefits be specified in writing. A reference to the actuarial tables will be added to the member information handbook.

Section 13 Adds language to the TRS section on qualified domestic relations orders to require reference to the plan to which an order applies.

Section 14 Defines "Internal Revenue Code" and "fiscal year" to conform to IRC requirements.

Sections 15 - 23 Apply to the Judicial Retirement System

Section 15 Allows pre-tax deduction of contributions to the Judicial Retirement System. This is similar to the current practice for PERS, TRS, SBS, and Deferred Compensation.

Section 16 Corrects an erroneous reference in the Judicial Retirement System (JRS) statute to 'compensation' rather than 'retirement pay'.

Section 17 Specifies distributions of monies. Section 401(a)(30) of the Internal Revenue Code requires qualified plans to permit such rollovers. Conforms the plan's distribution provisions to the minimum distribution requirements of section 401(a)(9) of the Internal Revenue Code. This section is required to avoid immediate taxation of such rollovers. This is current practice. Adds mandatory language prohibiting JRS from paying benefits in excess of the maximum permitted under section 415 of the Internal Revenue Code and limiting compensation taken into account for plan purposes in accordance with section 401(a)(17) of the Code.

Section 18 Clarifies that the Judicial Retirement System (JRS) is intended to be a qualified retirement plan under the Internal Revenue Code. JRS must maintain its qualified status in order to ensure that members receive favorable tax treatment of contributions made on their behalf and of distributions that they receive from the plan. Except as otherwise noted, none of the amendments in this bill will alter current practice.

Section 19 Corrects an erroneous reference to 'compensation' rather than 'survivors' benefits'.

Section 20/21 These provisions are required by section 401(a)(2) of the Internal Revenue Code. Specifies that the money in the JRS trust is for the exclusive benefit of the members and their beneficiaries. Specifies what occurs if the system is terminated.

Section 22 Conforms plan provisions to the requirements of the Uniformed Services Employment and Reemployment Rights Act, under which the plan must treat certain service in the Armed Forces by returning veterans as service with the employer.

Section 23 Adds and amends definitions to conform plan provisions to the requirement of section 401(a)(25) of the Internal Revenue Code. (1) Actuarial assumptions used to determine benefits be specified in writing. The assumptions will be added to the member information handbook. (2) Adds a requirement that a qualified domestic relations order identify the plan to which it applies.

Sections 24 - 38 Apply to the Public Employees' Retirement System

Section 24 Clarifies that the Public Employees' Retirement System (PERS) is intended to be a qualified retirement plan under the Internal Revenue Code. PERS must maintain its qualified status in order to ensure that members receive favorable tax treatment of contributions made on their behalf and of distributions that they receive from the plan. Except as otherwise noted, none of the amendments in this bill will alter current practice.

Section 25 Specifies that the money in the PERS trust is for the exclusive benefit of the members and their beneficiaries. These provisions are required by section 401(a)(2) of the Internal Revenue Code.

Section 26 Adds member information handbook as a statutory requirement in PERS. This is current practice.

Section 27 Adds mandatory language relating to Internal Revenue Service ruling that contributions deducted from employee salaries be treated as employer contributions. This is necessary for these contributions to be taken pre-tax. This is current practice.

Section 28 Adds language allowing purchase of service credit in PERS using pre-tax money in other tax deferred plans. (Included are allowed transfers from 401(a) - Non-SBS, from a conduit IRA, from a 403(b), from a 457 plan, from the SBS Plan if the IRS makes a determination to allow this (see section 40 for IRS determination required). It also allows purchase of service credit through pre-tax payroll deductions. This requires the contribution to be made by a payroll deduction and not a separate post tax payment that is converted to pre-tax monies. The language in this section is drafted to comply with the requirements of the IRC

Section 29 Allows direct rollover of PERS employee contribution accounts to an eligible retirement plan. Section 401(a)(30) of the Internal Revenue Code requires qualified plans to permit such rollovers. This is current practice.

Section 30 Clarifies that employer contributions to PERS include any adjustments to contributions as a result of a change or error made in the contributions made on behalf of an employee. This is current practice.

Section 31 Adds IRS required language relating to the administrative director of the Alaska Court System, in the event the administrative director elects to withdraw from the Judicial Retirement System.

Section 32 Adds mandatory language prohibiting PERS from paying benefits in excess of the maximum permitted under section 415 of the Internal Revenue Code and limiting compensation taken into account for plan purposes in accordance with section 401(a)(17) of the Code.

Section 33 Conforms the plan's distribution provisions to the minimum distribution requirements of section 401(a)(9) of the Internal Revenue Code.

Section 34 Adds clarifying language to a section relating to a change or error in contributions made on behalf of a PERS employee.

Section 35 Indicates that benefits paid by PERS may be subject to Federal Income taxes. The present version of the statute indicates that PERS benefits are exempt from Alaska state and municipal taxation. This clarifies the tax applicability at the Federal level.

Section 36 Conforms plan provisions to the requirements of the Uniformed Services Employment and Reemployment Rights Act, under which the plan must treat certain service in the Armed Forces by returning veterans as service with the employer.

Section 37 Conforms plan provisions to the requirement of section 401(a)(25) of the Internal Revenue Code relating to the actuarial assumptions used to determine benefits. Reference to the assumptions will be included in the member information handbook.

Section 38 Adds language to the PERS section on qualified domestic relations orders to require reference to the plan to which an order applies.

Sections 39 - 42 Relate To The Effective Date of Parts of This Act

Section 39 Repeals out-of-date sections in the TRS, JRS and PERS statutes.

Section 40 A temporary section of law that makes section 28, direct transfers from the SBS Annuity Plan, contingent on a favorable IRS ruling. Section 28 as it relates to SBS direct transfers are not effective unless the IRS favorably rules on this issue.

Section 41 Retroactivity clauses to meet IRC requirements.

Section 42 Immediate Effective Date

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SS HB 254
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title Retirement System Tax Qualification BRU Centralized Administrative Services
 Component Retirement and Benefits
 Sponsor Representative James
 Requester House State Affairs Component No. 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation will have no fiscal impact. It makes technical changes to the Public Employees', Teachers', and Judicial retirement systems required for compliance with the Internal Revenue Code. Enactment of this legislation will benefit public employees and teachers by allowing them to purchase service credit in their retirement plans with transfers of pre-tax savings in certain plans allowed by the Internal Revenue Code or payroll deductions. The provisions in this legislation allowing such purchases are allowed under new federal pension legislation, but incorporation in Alaska statute is necessary for Alaska public employees and teachers to take advantage of them.

Prepared by: Guy Bell, Director Phone 465-4471
 Division Retirement and Benefits Date/Time February 15, 2002
 Approved by: Jim Duncan, Commissioner Date February 15, 2002
 Agency Department of Administration

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