

HB

254

**Anchorage
Police
Department
Employees
Association**

Phone (907) 561-7500
P.O. Box 230330
Anchorage, Alaska 99523
500 West International Airport Road
Anchorage, Alaska

April 15, 2002

The Honorable Gene Therriault
Alaska State Senate
State Capital, Room 121
Juneau, Alaska 99801

RE: Amendments To PERS Statutes To Provide Local Options
Proposed Amendments to HB 254

Dear Senator Therriault:

During the hearing on this matter on April 11, 2002 before the Senate State Affairs Committee, a question was raised concerning whether the State of Alaska would incur any additional administrative costs as a result of allowing local employers the option to elect supplemental retirement benefits. The following language should address this issue, and make clear that any employer choosing the optional retirement benefits would be required to repay PERS for the cost of administering the additional benefits.

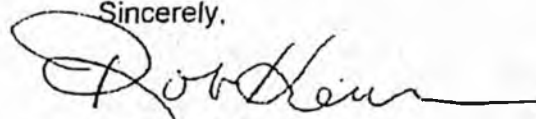
The new language would properly come after Section (e) of the proposed statute, which was added after PERS expressed concern whether the new statute would improperly create constitutionally-mandated benefits. Both new sections, read together, would read as follows:

"(e) If an employee working for an employer offering any of the optional benefits under this section leaves such employment and later begins work for an employer not offering such benefits, the employee shall have no entitlement to the receipt of the optional benefits.

"(f) If an employer elects any of the optional benefits set forth in this section, PERS shall include in its actuarial assessment the actual costs incurred by it in calculating and administering the optional benefits to the extent such costs are greater than the costs of calculating and administering the benefits replaced by the optional benefits."

Thank you for your consideration of this matter.

Sincerely,



Sgt. Rob Heun
President
APDEA

Subject: Retirement amendments
From: Ron Lorensen <rlorense@pobox.alaska.net>
Date: Wed, 20 Mar 2002 11:43:17 -0900
To: Kim Hutchinson <trust@ptialaska.net>

Kim--this got more complicated when I tried to add your earlier changes to this amendment.

I've actually created three separate amendments, each attached. I think #3 actually comes closest to what you described, but it strikes me that it will probably be a lot more expensive to use the actuarial value of the future benefit costs, rather than the usual approach of having the employee pay both the employee's and the employer's shares from way back when. I think interest for this approach should start on July 1, 2003.

#2 takes the "old-fashioned" approach of figuring indebtedness based on the contributions that should have been made by the employee and employer. Interest on this approach would be applied retroactively to July 1, 1980. I guess it could be that, with interest for 20 years, the actuarial approach of #3 would be cheaper--I have no way of trying to compute that.

#1 most closely tracks the approach and organization taken in the draft amendments you gave me. Substantively it should be the same as #3, but I think #3 is a little cleaner/better organized.

Have fun....

Ron L

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

Sec. 39.35.159. Temporary Legislative Employees. An employee who receives credited service for service rendered before July 1, 1979, as a temporary employee of the legislature of the state or territory during legislative sessions under AS 39.35.360(g), and who was not a member of the system at the time of the employee's legislative employment, is considered a member of the system beginning on the first date of the employee's legislative employment for which credited service is granted under AS 39.35.360(g) or on January 1, 1961, whichever is later.

* **Sec. ??.** AS 39.35.360(g) is amended to read:

(g) An employee is eligible to receive up to 10 years of credited service for service rendered before July 1, 1979, as a temporary employee of the legislature of the state or territory during legislative sessions. To receive retroactive credited service under this subsection, an employee shall claim the service before July 1, **2003** [1980]. When the employee claims the service, an indebtedness of the employee to the system shall be established **as provided in this subsection.** [THE AMOUNT OF THIS INDEBTEDNESS IS EQUAL TO THE CONTRIBUTIONS THE EMPLOYEE WOULD HAVE MADE IF THE EMPLOYEE HAD BEEN ELIGIBLE FOR MEMBERSHIP IN THE SYSTEM.] The rate used to calculate **the employee's indebtedness** [THESE CONTRIBUTIONS] may not be less than the rate in effect on January 1, 1961. Interest as prescribed by regulation accrues on this indebtedness beginning July 1, **2003** [1980]. Any outstanding indebtedness that exists at the time the

employee retires requires an actuarial adjustment to the benefits that are based upon retroactive credited service under this subsection. The employee's indebtedness shall be for both the employee's and the employer's share of contributions and shall be equal to the full actuarial cost of providing benefits for the service credited. *[Kim--*

I'm not sure the highlighted language is necessary--in fact, I think it creates confusion, since the actuarial cost of benefits has nothing to do with the amounts of past contributions...???)

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EMPLOYEE HAD BEEN ELIGIBLE FOR MEMBERSHIP IN THE SYSTEM. THE RATE USED TO CALCULATE THESE CONTRIBUTIONS MAY NOT BE LESS THAN THE RATE IN EFFECT ON JANUARY 1, 1961.] Interest as prescribed by regulation accrues on this indebtedness beginning July 1, 2003 [1980]. Any outstanding indebtedness that exists at the time the employee retires requires an actuarial adjustment to the benefits that are based upon retroactive credited service under this subsection.



SENATOR DAVE DONLEY

ALASKA STATE LEGISLATURE

April 4, 2002

To: Senator Therriault
Senator Phillips
Senator Halford
Senator Stevens
Senator Davis

From: Senator Donley *LD*

Request for Introducing a Revised Version of HB 254

I request the Senate State Affairs Committee adopt the language in the attached draft Committee Substitute for Sponsor Substitute for House Bill 254 into HB 254. Work draft "O" enhances the current bill by:

- 1) modifying eligibility for "Conditional Service Benefits" under both the Public Employees' (PERS) and Teachers' (TRS) Retirement Systems. The conditional service benefit provision allows a vested member of either the PERS or TRS to be eligible to receive a benefit in the opposite system with a minimum of 2 years of service. Without this provision, a vested member of one system must be vested in the other system (5 years in PERS or 8 years in TRS) to be eligible to receive a benefit in that system and
- 2) allowing Public Employees' Retirement System (PERS) members or former members who are hired by a school district "to work directly with students," to transfer their PERS credit into the Teachers' Retirement System (TRS) and use the PERS date of hire for their entry date in TRS, if earlier.

This lowers the minimum required service to meet eligibility to receive a conditional service benefit from 2 years of service to 1 year of service in the non-vested system. Retirement system members who would be eligible to transfer PERS credit into the TRS incur no additional costs for the transfer. Providing the ability to transfer PERS credit and use the PERS date of hire as the TRS entry date may allow many PERS members to be considered "tier 1" TRS employees. Tier 1 provides a higher level of benefits to retirees than does "tier 2."

The purpose of these changes is to remove any retirement system barrier that might prevent an individual from pursuing a career in the teaching profession. With such a shortage of teachers, it is imperative to encourage all PERS members to have the option to teach.

The changes included speak directly to the issue of encouraging a teaching career and dovetails nicely with Senator Kelly's bill, SB 86, which was signed into law last year.

Attachment
pc4/3/02

Co-Chair: Senate Finance Committee

Vice-Chair: Senate Judiciary Committee

Member: Legislative Budget and Audit Committee • Legislative Council

22-LS0853\O
Craver
3/28/02

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

BY

Offered:
Referred:

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 is amended by adding a new section to read:

27 **Sec. 14.25.095. Transfer of credited service in the public employees'**
28 **retirement system.** (a) An active member who is employed to work directly with
29 students and who has membership service in the public employees' retirement system
30 may claim credited service in this system in an amount equal to the membership
31 service the member has in the public employees' retirement system. The claimed

1 credited service shall be considered to be membership service in this system for all
2 purposes. If the member first joined the public employees' retirement system before
3 the member first joined this system, the member's initial date of hire under that system
4 shall be considered to be the initial date of hire in this system. The member may not
5 claim credited service for membership service for which the member has received a
6 refund under AS 39.35.200 unless the member fully pays the indebtedness as
7 established under AS 39.35.350. A member who claims credited service for
8 membership service in the public employees' retirement system under this section
9 must claim all of the membership service the member has in that system.

10 (b) To claim credited service under this section, the member shall file a
11 written request with the administrator before the member applies to retire. The
12 administrator shall determine the full actuarial cost of benefits based on the member's
13 total credited service and shall transfer from the public employees' retirement system
14 to this system an amount equal to the sum of the member contributions and any
15 indebtedness payments to the public employees' retirement system and the employer
16 contributions to the public employees' retirement system made on behalf of the
17 employee together with interest earned on those contributions and indebtedness
18 payments.

19 (c) Credited service earned under the public employees' retirement system that
20 has been claimed as credited service in the teachers' retirement system under this
21 section may not be used for any other purpose. A member who claims credited
22 service under this section loses all rights to benefits under AS 39.35 based on the
23 claimed credited service.

24 (d) A member whose rights to benefits under AS 39.35 are subject to a
25 qualified domestic relations order may claim credited service under this section.
26 However, the credited service claimed remains subject to the terms of the order.

27 (e) Notwithstanding AS 14.25.063 and AS 39.35.350, a former member of the
28 public employees' retirement system who is an active member of this system may
29 reinstate, under this section, membership service earned under AS 39.35 for which the
30 member received a refund of contributions.

31 * Sec. 7. AS 14.25.110 is amended by adding new subsections to read:

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

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

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

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

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

24 (1) "base salary"

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

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

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

31 * Sec. 8. AS 14.25.125(a) is amended to read:

1 (a) Subject to AS 14.25.167, a member is eligible for a normal retirement
2 salary at age 60 with at least one year of [TWO YEARS] membership service if the
3 member also is eligible for a normal retirement benefit under the public employees'
4 retirement system (AS 39.35).

5 * Sec. 9. AS 14.25.125(b) is amended to read:

6 (b) Subject to AS 14.25.167, a member is eligible for an early retirement
7 salary at age 55 with at least one year [TWO YEARS] of membership service if the
8 member also is eligible for an early retirement benefit under the public employees'
9 retirement system (AS 39.35).

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

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

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

16 (c) In this section,

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

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

22 (3) "eligible retirement plan"

23 (A) means

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

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

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

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

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

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

3 (B) notwithstanding (A) of this paragraph, means, with respect
4 to distributions made before January 1, 2002, an individual retirement account
5 or an individual retirement annuity account described or defined in 26 U.S.C.
6 408 in the case of an eligible rollover distribution to a beneficiary who is the
7 surviving spouse of a member;

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

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

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

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

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

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

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

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

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

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

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

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

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

1 an annuity irrevocably commences to the member before the required beginning date,
2 the date distribution is considered to begin is the date that the distribution actually
3 commences.

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

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

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

12 (i) In this section,

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

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

19 * Sec. 12. AS 14.25.173(a) is amended to read:

20 (a) When [IF] a change or error is made in the records maintained by the
21 system or in the contributions made on behalf of an employee or an error is made
22 in computing a benefit, and, as a result, a teacher or member or beneficiary is entitled
23 to receive [RECEIVES] from the system more or less than the teacher or member or
24 beneficiary would have been entitled to receive had the records or contributions been
25 correct or had the error not been made, (1) the records, contributions, or error shall be
26 corrected, and (2) [,] as far as practicable, future payments or benefit entitlement
27 shall be adjusted so that the actuarial equivalent of the pension or benefit to which the
28 teacher or member or beneficiary was correctly entitled will be paid. An adjustment
29 to contributions shall be picked up by the employer in accordance with
30 AS 14.25.050 or treated as an adjustment to the employer's contributions in
31 accordance with this section, depending upon the nature of the adjustment. If no

1 future benefit payments are due, a person who was paid any amount to which the
2 person was not entitled is liable for repayment of that amount, and a person who was
3 not paid the full amount to which the person was entitled shall be paid that amount.

4 * Sec. 13. AS 14.25 is amended by adding a new section to read:

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

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

11 * Sec. 14. AS 14.25 is amended by adding a new section to read:

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

16 * Sec. 15. AS 14.25.220(2) is amended to read:

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

22 * Sec. 16. AS 14.25.220(31) is amended to read:

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

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

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

31 (C) sets out the amount or percentage of the member's benefit,

1 or of any survivor's benefit, to be paid to the alternate payee, or sets out the
2 manner in which that amount or percentage is to be determined;

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

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

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

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

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

14 * Sec. 17. AS 14.25.220 is amended by adding new paragraphs to read:

15 (44) "Internal Revenue Code" means the Internal Revenue Code of
16 1986, as amended;

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

19 * Sec. 18. AS 22.25.011 is amended to read:

20 Sec. 22.25.011. **Contributions of judges and justices.** Each justice and
21 judge appointed after July 1, 1978, shall contribute seven percent of the base annual
22 salary received by the justice or judge to the judicial retirement system. Contributions
23 shall be made for all creditable service under this chapter up to a maximum of 15
24 years. This contribution is made in the form of a deduction from compensation, at the
25 end of each payroll period, and is made even if the compensation paid in cash to the
26 justice or judge is reduced below the minimum prescribed by law. The contributions
27 shall be deducted from justice's or judge's compensation before the computation
28 of applicable federal taxes and shall be treated as employer contributions under
29 26 U.S.C. 414(h)(2). A member may not have the option of making the payroll
30 deduction directly in cash instead of having the contribution picked up by the
31 employer. Each justice and judge is considered to consent to the deduction from

1 compensation. Payment of compensation less the deduction constitutes a full
2 discharge of all claims and demands for the services rendered by the justice or judge
3 during the period covered by the payment, except as to the benefits provided for under
4 this chapter. The contributions shall be credited to the judicial retirement fund
5 established in accordance with AS 22.25.048.

6 * **Sec. 19.** AS 22.25.020 is amended to read:

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

15 * **Sec. 20.** AS 22.25 is amended by adding new sections to read:

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

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

23 (c) If a member has made a distribution election and dies before the
24 distribution of the member's interest begins, distribution of the member's entire interest
25 shall be completed by December 31 of the calendar year containing the fifth
26 anniversary of the member's death. However, if any portion of the member's interest
27 is payable to a designated beneficiary, distributions may be made over the life of the
28 designated beneficiary or over a period certain not greater than the life expectancy of
29 the designated beneficiary, commencing on or before December 31 of the calendar
30 year immediately following the calendar year in which the member died, and, if the
31 designated beneficiary is the member's surviving spouse, the date distributions are

1 required to begin may not be earlier than the later of December 31 of the calendar year
2 (1) immediately following the calendar year in which the member died, or (2) in which
3 the member would have attained 70 1/2 years of age, whichever is earlier. If the
4 surviving spouse dies after the member but before payments to the spouse have begun,
5 the provisions of this subsection apply as if the surviving spouse were the member.
6 An amount paid to a child of the member will be treated as if it were paid to the
7 surviving spouse if the amount becomes payable to the surviving spouse when the
8 child reaches the age of majority.

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

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

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

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

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

3 (i) In this section,

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

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

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

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

15 (c) In this section,

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

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

21 (3) "eligible retirement plan"

22 (A) means

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

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

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

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

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

31 (vi) on or after January 1, 2002, a governmental plan

1 described in 26 U.S.C 457(b); and

2 (B) notwithstanding (A) of this paragraph, means, with respect
3 to distributions made before January 1, 2002, an individual retirement account
4 or an individual retirement annuity account described or defined in 26 U.S.C.
5 408 in the case of an eligible rollover distribution to a beneficiary who is the
6 surviving spouse of a member;

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

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

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

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

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

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

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

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

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

1 plans of governmental employers are incorporated as part of the terms and conditions
2 of the system. This subsection shall apply to any member of this system.

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

10 * Sec. 21. AS 22.25.025 is amended to read:

11 Sec. 22.25.025. Administration. The commissioner of administration is
12 responsible for the administration of the judicial retirement system. The system is
13 intended to qualify as a governmental plan established and maintained by the
14 government of this state for the state's employees, as permitted under 26 U.S.C.
15 414(d). The commissioner shall publish an information handbook for the system
16 at intervals as the commissioner considers appropriate.

17 * Sec. 22. AS 22.25.030(a) is amended to read:

18 (a) Upon the death of a justice or judge who has served for at least two years,
19 the surviving spouse is entitled to receive survivors' benefits [MONTHLY
20 COMPENSATION] equal to one-half of the monthly retirement pay the justice or
21 judge would thereafter have been entitled to receive if retired at the time of death. If
22 at death the justice or judge was not yet entitled to retirement pay, or was or would
23 have been entitled to less than 60 percent of the monthly salary authorized for the
24 office, the surviving spouse is entitled to monthly survivors' benefits
25 [COMPENSATION] equal to 30 percent of the salary authorized for justices or
26 judges, respectively, at the time each monthly payment is made.

27 * Sec. 23. AS 22.25.048(a) is amended to read:

28 (a) The commissioner of administration shall establish a judicial retirement
29 trust fund for the judicial retirement system in which the assets of the system are
30 deposited and held. The trust fund is subject to the restrictions of (h) of this
31 section. The commissioner shall maintain accounts and records for the system.

1 * **Sec. 24.** AS 22.25.048 is amended by adding new subsections to read:

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

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

7 * **Sec. 25.** AS 22.25 is amended by adding a new section to read:

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

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

12 * **Sec. 26.** AS 22.25.900 is repealed and reenacted to read:

13 **Sec. 22.25.900. Definitions.** In this chapter, unless the context otherwise
14 requires,

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

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

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

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

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

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

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

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

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

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

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

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

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

14 * **Sec. 27.** AS 37.05.180 is amended to read:

15 **Sec. 37.05.180. Two-year limitation on payment of warrants.** A warrant
16 upon the state treasury may not be paid unless presented at the office of the
17 commissioner of revenue within two years of the date of its issuance. A warrant not
18 presented within that time is considered paid, and money held at the expiration of that
19 time in a special fund or account for the payment of the warrant shall be transferred to
20 the general fund, except where the warrant is for the payment of a permanent fund
21 dividend, a benefit payment or refund under AS 14.25, AS 22.25, AS 26.05,
22 AS 39.30, AS 39.35, AS 39.37, or AS 39.45, or where transfer is prohibited by the
23 federal government for state participation in a federal program.

24 * **Sec. 28.** AS 39.35.010 is repealed and reenacted to read:

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

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

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

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

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

11 * Sec. 30. AS 39.35.060 is amended to read:

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

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

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

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

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

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

24 (6) formulate and recommend to the board regulations to govern the
25 operation of the system;

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

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

31 * Sec. 31. AS 39.35.160(a) is amended to read:

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

12 * Sec. 32. AS 39.35 is amended by adding a new section to read:

13 Sec. 39.35.165. Purchase of credited service. (a) An employee who is
14 eligible to purchase credited service under AS 39.35.310, 39.35.330, 39.35.340,
15 39.35.342, 39.35.345, 39.35.350, 39.35.360, 39.35.370, a member who is eligible to
16 purchase credited service under AS 39.35.375, or an elected public official who is
17 eligible to purchase credited service under AS 39.35.381 is an employee for purposes
18 of this section. An employee may, in lieu of making payments directly to the system,
19 elect to have the employee's employer make payments as provided in this section.

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

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

27 (2) the employee shall make an election under this section to purchase
28 credited service as permitted in AS 39.35.310, 39.35.330, 39.35.340, 39.35.342,
29 39.35.345, 39.35.350, 39.35.360, 39.35.370, 39.35.375, or 39.35.381 and before the
30 employee's termination of employment; the election must specify the number of
31 payroll periods that deductions will be made from the employee's compensation and

1 the dollar amount of deductions for each payroll period during the specified number of
2 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, 39.35.375, or
2 39.35.381 at the 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, 39.35.375, or
8 39.35.381, the requirements of this section and the administrative filing requirements
9 specified by the board, the system shall adjust the employee's credited service history
10 and add any 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. 33.** 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. 34.** 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. 35.** 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. 36.** 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. 37. 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. 38. AS 39.35.385(a) is amended to read:

18 (a) Subject to AS 39.35.450, an employee is eligible for a normal retirement
19 benefit at age 60 with at least one year [TWO YEARS] of credited service if the
20 employee also is eligible for a normal retirement salary under AS 14.25 (teachers'
21 retirement system).

22 * Sec. 39. AS 39.35.385(b) is amended to read:

23 (b) Subject to AS 39.35.450, an employee is eligible for an early retirement
24 benefit at age 55 with at least one year [TWO YEARS] of credited service if the
25 employee also is eligible for an early retirement salary under AS 14.25 (teachers'
26 retirement system).

27 * Sec. 40. AS 39.35.520(a) is amended to read:

28 (a) When a change or error is made in the records maintained by the system or
29 in the contributions made on behalf of an employee [,] or an error is made in
30 computing a benefit, and, as a result, an employee or beneficiary is entitled to receive
31 [RECEIVES] from the system more or less than the employee would have been

1 entitled to receive had the records or contributions been correct or had the error not
2 been made, (1) the records, contributions, or error shall be corrected, and (2) as far as
3 practicable, future payments or benefit entitlement shall be adjusted so that the
4 actuarial equivalent of the pension or benefit to which the employee or beneficiary
5 was correctly entitled shall be paid. An adjustment to contributions shall be picked
6 up by the employer under AS 39.35.160 or treated as an adjustment to the
7 employer's contributions under AS 39.35.270, depending upon the nature of the
8 adjustment. If no future payment is due, a person who was paid any amount to which
9 the person was not entitled is liable for repayment of that amount, and a person who
10 was not paid the full amount to which the person was entitled shall be paid the balance
11 of that amount.

12 * Sec. 41. AS 39.35.546 is amended by adding a new subsection to read:

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

15 * Sec. 42. AS 39.35 is amended by adding a new section to read:

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

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

20 * Sec. 43. AS 39.35.680(2) is amended to read:

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

26 * Sec. 44. AS 39.35.680(34) is amended to read:

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

30 (A) creates or recognizes the existence of an alternate payee's
31 right to, or assigns to an alternate payee the right to, receive all or a portion of

1 employee contribution account or the benefits payable with respect to an
2 employee;

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

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

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

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

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

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

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

19 * Sec. 45. AS 14.25.110(f), 14.25.110(g), and 14.25.110(h); AS 22.25.010(g); and
20 AS 39.35.451 are repealed.

21 * Sec. 46. The uncodified law of the State of Alaska is amended by adding a new section to
22 read:

23 APPLICABILITY OF CERTAIN CREDITED SERVICE PURCHASES UNDER
24 PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS. (a) The provisions
25 of this Act listed below shall apply only after the Department of Administration receives
26 favorable rulings on each provision from the Internal Revenue Service that, under 26 U.S.C.
27 414(h)(2), the amounts paid by the employer will not be included in the member's gross
28 income for income tax purposes until those amounts are distributable by refund or retirement
29 benefit payment:

- 30 (1) the provisions of AS 14.25.075(b)(4), added by sec. 5 of this Act;
- 31 (2) the provisions of AS 39.35.165(b)(4), added by sec. 32 of this Act;

1 (3) the provisions of AS 39.35.165(f)(5), added by sec. 32 of this Act.

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

4 * **Sec. 47.** The uncodified law of the State of Alaska is amended by adding a new section to
5 read:

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

8 (1) AS 14.25.165, enacted by sec. 11 of this Act;

9 (2) AS 22.25.021, enacted by sec. 20 of this Act;

10 (3) AS 39.35.371, enacted by sec. 37 of this Act.

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

12 (1) AS 14.25.110(l)(1), enacted by sec. 7 of this Act;

13 (2) AS 39.35.370(j)(1), enacted by sec. 36 of this Act.

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

15 (1) AS 14.25.110(m), enacted by sec. 7 of this Act;

16 (2) AS 22.25.023(b), enacted by sec. 20 of this Act;

17 (3) AS 39.35.370(k), enacted by sec. 36 of this Act.

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

19 (1) AS 14.25.075(d), enacted by sec. 5 of this Act;

20 (2) AS 39.35.165(d), enacted by sec. 32 of this Act.

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

22 (1) AS 14.25.075(f), enacted by sec. 5 of this Act;

23 (2) AS 14.25.110(l)(2), enacted by sec. 7 of this Act;

24 (3) AS 39.35.165(f)(3) and (4), enacted by sec. 32 of this Act;

25 (4) AS 39.35.370(j)(2), enacted by sec. 36 of this Act.

26 * **Sec. 48.** This Act takes effect immediately under AS 01.10.070(c).

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

Resolution of Support

Alaska State Legislature

REPRESENTATIVE
JEANNETTE JAMES

P.O. Box 56622
North Pole, Alaska 99705
(907) 488-1546
FAX (907) 488-4271



While in Juneau
State Capitol
Juneau, Alaska
99801-1182
(907) 465-3743
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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.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SSHB 254
(H) Publish Date: 2/22/02

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)

FUND SOURCE	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
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

CS for SS for HB 254 (FIN)
Internal Revenue Code Compliance Legislation
Division of Retirement and Benefits - Section by Section Analysis
March 1, 2002

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. This is current practice.

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. This is current practice.

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

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. This is current practice.

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. This is current practice.

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. Conform 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.

Section 24 Applies to all Retirement Funds

Section 24 Adds a provision that warrants issued from one of the retirement funds that are more than two years old lapse back to the retirement fund, not the general fund.

Sections 25 - 38 Apply to the Public Employees' Retirement System

Section 25 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 26 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 27 Adds member information handbook as a statutory requirement in PERS. This is current practice.

Section 28 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 29 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 30 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 31 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 32 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 33 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 34 Conforms the plan's distribution provisions to the minimum distribution requirements of section 401(a)(9) of the Internal Revenue Code.

Section 35 Adds clarifying language to a section relating to a change or error in contributions made on behalf of a PERS employee.

Section 36 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 37 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 38 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 39 Adds language to the PERS section on qualified domestic relations orders to require reference to the plan to which an order applies.

Section 40 Repeals out-of-date sections in the TRS, JRS and PERS statutes.

Sections 41 - 43 Relate To The Effective Date of Parts of This Act

Section 41 A temporary section of law that makes section 29, direct transfers from the SBS Annuity Plan, contingent on a favorable IRS ruling. Section 29 as it relates to SBS direct transfers is not effective unless the IRS favorably rules on this issue.

Section 42 Retroactivity clauses to meet IRC requirements.

Section 43 Immediate Effective Date

Alaska State Legislature

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In Juneau:

State Capitol Building
Juneau, Alaska 99801
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House Of Representatives

Majority Leader

Representative Jeannette James

DATE: March 14, 2002
TO: Senator Gene Therriault, Chair
Senate State Affairs Committee
FROM: Representative Jeannette James
RE: Request to hear HB 254

A handwritten signature in black ink, appearing to be "J. James", written over the name "Representative Jeannette James" in the "FROM:" field.

House Bill 254 was introduced by request of Guy Bell of Retirement and Benefits. It keeps our Alaska State Retirement systems in compliance with IRS codes and allows us to take advantage of pre-tax buy-ins, with no effect on current benefits and zero fiscal impact on the general fund. Today it passed the House unanimously.

It is very important for this bill to pass this year. Thus we respectfully request that HB 254 be given a State Affairs Committee hearing as soon as possible.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SSHB 254
 (H) Publish Date: 2/22/02

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 Component No.: 64
 Requester: House State Affairs

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

CS for SS for HB 254 (FIN)
Internal Revenue Code Compliance Legislation
Division of Retirement and Benefits - Section by Section Analysis
March 1, 2002

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. This is current practice.

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. This is current practice.

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

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. This is current practice.

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. This is current practice.

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. Conform 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.

Section 24 Applies to all Retirement Funds

Section 24 Adds a provision that warrants issued from one of the retirement funds that are more than two years old lapse back to the retirement fund, not the general fund.

Sections 25 - 38 Apply to the Public Employees' Retirement System

Section 25 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 26 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 27 Adds member information handbook as a statutory requirement in PERS. This is current practice.

Section 28 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 29 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 30 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 31 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 32 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 33 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 34 Conforms the plan's distribution provisions to the minimum distribution requirements of section 401(a)(9) of the Internal Revenue Code.

Section 35 Adds clarifying language to a section relating to a change or error in contributions made on behalf of a PERS employee.

Section 36 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 37 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 38 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 39 Adds language to the PERS section on qualified domestic relations orders to require reference to the plan to which an order applies.

Section 40 Repeals out-of-date sections in the TRS, JRS and PERS statutes.

Sections 41 - 43 Relate To The Effective Date of Parts of This Act

Section 41 A temporary section of law that makes section 29, direct transfers from the SBS Annuity Plan, contingent on a favorable IRS ruling. Section 29 as it relates to SBS direct transfers is not effective unless the IRS favorably rules on this issue.

Section 42 Retroactivity clauses to meet IRC requirements.

Section 43 Immediate Effective Date