Employees' Retirement System

Member Handbook

The Retirement Systems of Alabama

Contact ERS

New contact information effective 9/29/2008

Phone

877-517-0020
334-517-7000

Fax

877-517-0021
334-517-7001

Email

ersinfo@rsa-al.gov
When sending an email, please include your full name, employer, home mailing address, and daytime phone number.

Mail

The Employees' Retirement System of Alabama
PO Box 302150
Montgomery, AL 36130-2150

Web site

www.rsa-al.gov

Building Location

201 South Union Street
Montgomery, Alabama

Business Hours

8:00 am - 5:00 pm
Monday - Friday

Please provide your full name and Social Security number on all faxes and letters.

Cover photos (from left to right): RSA Executive Building, Montgomery; Cambrian Ridge, Greenville; Ross Bridge, Hoover; The Shoals, Muscle Shoals

2008

ERS Member Handbook

Introduction

The Retirement Systems of Alabama (RSA) is pleased to provide you with the Employees' Retirement System (ERS) Member Handbook. State Police should refer to the State Police Member Handbook. This handbook is an important part of our commitment to provide our members with valuable information about their benefits and retirement. Please read this handbook thoroughly and keep it with your other benefit materials. Your member handbook is a very useful tool when you have questions about your benefits and retirement. It will help you make informed decisions about your future.

The information in this handbook is based on the Code of Alabama 1975, Title 36, Chapters 27, 27A and 27B. This handbook is not intended as a substitute for the laws of Alabama governing the ERS nor will its interpretation prevail should a conflict arise between its contents and Chapters 27, 27A and 27B. Furthermore, the laws summarized here are subject to change by the Alabama Legislature. Do not rely solely upon the information provided in this handbook to make any decision regarding your retirement, but contact the ERS directly with any questions you may have about your benefits and retirement.

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About ERS

Our Mission

The mission of the Retirement Systems of Alabama is to serve the interests of our members by preserving the excellent benefits and soundness of the Systems at the least expense to the state of Alabama and all Alabama taxpayers.

ERS Board of Control

Responsibility for the management and administration of the ERS is vested in a 13-member Board of Control. The board consists of the following members:

- Governor, Ex Officio
- State Treasurer, Ex Officio
- State Personnel Director, Ex Officio
- Director of Finance, Ex Officio
- Three members of the ERS, appointed by the governor
- Two vested state members elected by full-time state employees participating in the ERS
- Retired state employee elected by retired state members of the ERS
- Retired city, county, or public agency elected by retired city, county and public agency members of the ERS
- Two active employees of a city, town, public or quasi-public agency elected by full-time employees of a city, town, public or quasi-public agency

The Board of Control has full power to invest and reinvest the retirement funds through the Secretary-Treasurer. The Board elects the Secretary-Treasurer who will serve as the Chief Executive Officer of the RSA and is responsible for the day-to-day management of the RSA.

Visit the RSA Web Site (www.rsa-al.gov)

The ERS strongly encourages its members and member agencies to browse this user-friendly site because of the tremendous amount of useful information and interactive tools available.

What you can find:

- Retirement Benefit Calculator
- DROP Calculator
- The best ways of contacting the RSA
- Monthly earnings for RSA-1
- Investment performance
- Publications and forms
- Legislation affecting the RSA
- Agency information
- Retirement planning information
- Retiree Information

Map and Directions

From the West

Follow Highway 80 to I-65. Follow I-65 North to Montgomery. Approaching Montgomery, stay in the right-hand lane and exit onto I-85 North to Atlanta. Continue in the right-hand lane; then take the first exit, which is Court Street. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.

From the East

Follow I-85 South to downtown Montgomery and take the Union Street exit on the right. Take the first right on the service road onto Union Street. Continue on Union Street through one traffic light. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.

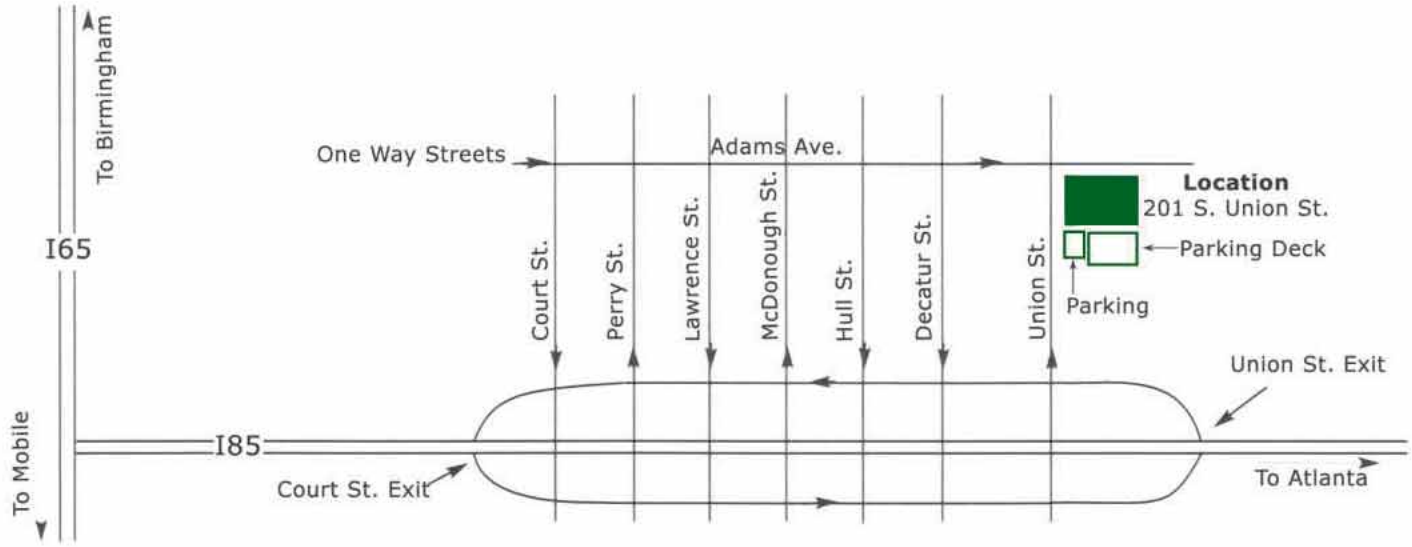
From the South

Follow I-65 North to Montgomery. Approaching Montgomery, stay in the right-hand lane and exit onto I-85 North to Atlanta. Continue in the right-hand lane; then take the first exit, which is Court

Street. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.

From the North

Follow I-65 South into Montgomery. Take the I-85 North exit to the right to Atlanta. Stay in the right-hand lane and take the first exit on I-85, which is the Court Street exit. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.



Membership

Defined Benefit Program

The ERS is a defined benefit plan qualified under Section 401(a) of the Internal Revenue Code. Since its inception in 1945, the plan has provided disability and service retirement benefits to members and survivor benefits to qualified beneficiaries. A defined benefit plan provides the employee with a specific benefit at retirement by calculating the retirement benefit based on a formula. Benefits are payable monthly for the lifetime of the member, possibly continuing for the lifetime of his or her beneficiary. The *Code of Alabama 1975*, Section 36-27 contains the actual language governing the plan.

Mandatory Participation

Participation in the ERS is mandatory if a person is employed in a position eligible for coverage in a **non-temporary capacity on at least a one-half time basis earning at least the federal minimum wage**. Once enrolled, the member must continue participation until employment is terminated. Active members of the Teachers' Retirement System (TRS) are not eligible for ERS participation.

Certain officials who meet the above requirements and are elected to office after the adoption of a Constitutional Amendment authorizing participation in the ERS are required to participate.

Temporary employees with a specific termination date not exceeding one year are ineligible. However, temporary employees employed longer than one year must begin participation in the ERS at the beginning of the second consecutive year of employment. The member will be given the opportunity to purchase the first year of temporary employment.

Contributions

Regular members' contribution rate is **five** percent of earnable compensation. Earnable compensation is the full rate of compensation payable to a member working full-time. Full-time certified firefighters, correctional officers, and law enforcement officers must contribute **six** percent of earnable compensation. State Police contribute **ten** percent. The member contribution rate is determined by statute and subject to change by the Alabama Legislature. The employer's contribution rate is established after each annual actuarial valuation of participating agencies.

Designation of Beneficiary

It is very important for members to keep their beneficiary(s) designations current. Failure to do so can result in possible loss of valuable benefits to your survivors. If you wish to change your beneficiary or in the event of marriage, divorce, or the beneficiary's death, file a new beneficiary designation with the ERS. A Change of Beneficiary form is available on our Web site or you may contact your employer or the ERS. You may name more than one beneficiary and designate them as contingent or co-beneficiaries. If at the member's death, there is no beneficiary; the member's estate will be paid the appropriate death benefit.

A retired member who is receiving a benefit under the provisions of Option 2, 3, or 4 retirement allowance may designate a replacement beneficiary for a monthly survivor benefit if the designated beneficiary predeceases the retired member or if the member and the designated beneficiary become divorced. See **Replacement Beneficiary** on page 20.

Annual Statement of Account

Your personal Annual Statement of Account is mailed to your home address in early December. The purpose of the annual statement is to provide you with information pertaining to your beneficiary, member contributions, accumulated interest, creditable service and earnings. This also provides you with the opportunity to verify your records and use the information for retirement planning.

The statement includes a Personal section where your beneficiary is indicated. Please check to make sure that this information is current. If not, contact the ERS and supply us with the updated information. The next section is Member Contributions. This

section lists your previously taxed contributions, non-taxed member contributions, total interest and the balance as of the end of the fiscal year, which is September 30.

The Creditable Service by Category section breaks out the member's service credit by membership, prior, purchased, and transfer service. This section also indicates if the member is vested in the system or not. The Ten Year Service History section shows your calculated earnings based on actual contributions received for the period beginning October 1 and ending September 30 and will not necessarily agree with your contract salary or the salary reported on your W-2 form. Your contributions and service credit are also shown and are provided by your employer. **All statement information is subject to later audit and correction.**

The statement also contains a brief explanation of vesting, refunds, death benefits, disability retirement and maximum monthly retirement benefits.

Change of Address

Having your current home mailing address on file with the ERS is very important. Many important documents are mailed to each member such as your *Advisor*, ERS Board of Control Election ballots, Annual Statement of Account, and RSA-1 statement. Please report any change of address to the ERS in writing, with signature, either by letter or Address Change Notification form. The change of address form can be obtained from your payroll officer or downloaded from our Web site. Address changes cannot be made through email or over the phone.

Types of Creditable Service

Creditable service is the total service credit accrued to your account and is one part of the formula used to calculate your retirement benefit. It includes membership service, prior service, purchased service, and transferred service. Periods of part-time or less than full-time service should be prorated based on the percentage of time worked in relation to full time.

Membership Service

Membership service is service credit earned as an employee while a member of the ERS and making contributions to the ERS. Members can only earn a year's worth of service credit in a year's time. Service credit is calculated by your employer and reported to the ERS. Service credit is subject to review, audit and correction by the ERS prior to retirement.

Prior Service

Service credit earned prior to your agency's participation date in the ERS.

Purchased Service

Alabama state law allows active members to purchase service credit for certain types of past employment. Purchasing service credit may increase the amount of your retirement income or allow you to retire sooner. See **Purchasing Additional Service Credit** on page 10.

Transferred Service

If a member previously worked for an agency covered under the TRS, the member must authorize a transfer of service credit to the ERS.

Leave of Absence

A member of the ERS who is on leave of absence without pay is not entitled to any service credit while on such leave. A member receiving workmen's compensation pay is also not entitled to any service credit for such pay.

Vesting

Vesting means the member has earned enough service credit to be eligible for a lifetime retirement benefit. Members have a vested status in the ERS after accumulating 10 years of creditable service. Members cannot convert unused sick leave to retirement credit in order to meet the minimum 10 years of service required for vesting.

Termination of Service

Ineligible for Retirement

Once a member terminates employment prior to retirement eligibility, he or she has three options:

1. If the member is vested (has at least 10 years of service), retirement contributions may be left in the system until age 60. The member may apply for service retirement to be effective the first of the month following attainment of age 60. If the member withdraws his or her contributions, the member will not be eligible for retirement benefits.

2. With less than 10 years of service, the member may leave contributions in the system for up to five years. If the member has not returned to employment as a participating member, the account will be terminated and contributions plus any refundable accrued interest will be payable to the member.

3. The member may withdraw all retirement contributions and refundable interest. Member contributions are only refunded at the request of the member upon termination of employment and application for refund.

Note: An approved leave of absence does not constitute termination of employment.

To request a refund, contact the ERS and request a Form 7, Notice of Final Deposit and Request for Refund and the Special Tax Notice Regarding Plan Payments or download them from our Web site. Instructions for completing the form are located on the reverse side of the form. Please read the Special Tax Notice for its valuable tax information. The taxable portion of the refund is subject to federal income tax withholding at the rate of 20 percent unless the taxable amount of the refund is transferred directly (rolled-over) from the RSA to the trustee of an Individual Retirement Account, Annuity, or Qualified Retirement Plan.

If the member elects to receive the refund directly, he or she will be refunded 80 percent of the taxable amount of the retirement contributions and refundable interest, if any. The taxable portion of the refund may also be subject to a 10 percent additional tax if the member is less than 59 1/2 years old. No portion of the refund is subject to state of Alabama income tax.

In January following the calendar year in which a taxable refund is made, a 1099-R will be issued to the member who has directly received the refund, regardless of whether the individual rolled-over the refund to a qualified plan within 60 days of the date of withdrawal.

Refund of Contributions

A member's contributions are only refundable at the request of the member upon termination of employment and application for refund (Form 7). There are no partial refunds; all contributions are refunded in full. Interest on the account is only refunded if the member has at least three years of membership service. The employee is not entitled to the total interest credited to the account. Upon withdrawal, all service credit established with the ERS is canceled. For vested members, the right to lifetime monthly retirement benefits at age 60 is forfeited. No employer contributions are included in refunds paid to the member.

Table of Refunds

Years of Membership Service	Amt of Interest Refunded	Contributions Refunded
Less than 3 yrs	None	All
3 yrs, but less than 16 yrs	50%	All
16 yrs, but less than 21 yrs	60%	All
21 yrs, but less than 26 yrs	70%	All
26 yrs or more	80%	All

By law, interest is credited on the previous year's average balance at the rate of four percent per annum. Refunds may be subject to a federal tax penalty.

Purchasing Additional Service Credit

Alabama state law allows active members to purchase service credit for certain types of past employment. Purchasing service credit may increase the amount of your retirement income or allow you to retire sooner.

To purchase service credit, the member must submit proper certification of the service. Request the appropriate certification form by contacting the ERS or downloading the form from our Web site. Have the form completed by an official record keeper where the service was performed. Then return the completed certification form to the ERS.

Military Service in the U.S. Armed Forces

- During an active member's first year of participation in the ERS, he or she may purchase up to four years of eligible military service provided the member has had no previous period of eligibility. Eligible service includes honorable service in the U.S. armed forces for which the member is not currently receiving service retirement benefits from any branch of the U.S. armed forces, or from any other source other than benefits received exclusively as payment for a service connected disability. Weekend service and summer camp service with the National Guard and Reserves are not eligible to be purchased as creditable service.

  To purchase this service, a Statement of Military Service form must be completed and submitted to the ERS. Military documentation that verifies the periods of military service and character of service must be provided. Examples of documentation include DD Form 214 and discharge notification. The cost to purchase military service in the first year is four percent of the average salary paid to a state employee during each year of claimed service plus eight percent interest compounded from the last date of service to the date of payment. The full amount must be paid in a lump-sum for all active duty time up to four years.

- The next opportunity to purchase military service will be after accumulating 10 years of creditable service and will cost substantially more.

  Once an active member of the ERS has accrued 10 years of service, he or she may purchase up to four years of active military service if not purchased during the first year of participation. Eligible service includes honorable service in the U.S. armed forces for which the member has not received credit for such service toward retirement status in the ERS, TRS or any other public pension fund. Weekend service and summer camp service with the National Guard and Reserves are not eligible to be purchased as creditable service.

  The cost of purchasing credit for military service after ten years of service will be the full actuarial cost. The full actuarial cost is based on the member's life expectancy, salary, and earliest date eligible to begin receiving retirement benefits. This service must be purchased prior to the member's retirement.

Restoration of Withdrawn Service Credit from the RSA

After completing two years of contributing service, any member who previously participated in either the ERS or TRS and withdrew his or her contributions may restore the previously canceled creditable service. The withdrawn service cannot be service credit established with any other public retirement system.

The cost to purchase the withdrawn service is the amount previously withdrawn plus eight percent interest compounded from the date of withdrawal to the date of payment. The total withdrawn amount must be paid in a lump-sum and made prior to termination of employment. A Statement of Withdrawn Service must be completed with the purchase. The Statement of Withdrawn Service may be obtained from the ERS or downloaded from our Web site.

Maternity Leave Without Pay

An active member (male or female) of the ERS may purchase up to one year of credit for each period of maternity leave without pay. The member cannot purchase credit for any period of maternity leave that he or she already has credit for in the ERS. A member may request an Application to Obtain Service Credit for Maternity Leave Without Pay from the ERS or download from our Web site.

The cost to purchase this service is the full actuarially determined cost. Payment must be made no later than June 30 of the calendar year following the expiration of maternity leave without pay.

Previous Service with a City, County, Town, Public or Quasi-Public Organization, or Political Subdivision of the State of Alabama (Section 12)

- Any active member with at least five years of contributing service, exclusive of military service, may purchase up to eight years of eligible previous service with a city, county, town, public or quasi-public organization, or political subdivision of a city or county of the state of Alabama (Section 12). To be able to purchase this service the following conditions must be met:

  - the service must have occurred before October 1, 2000, and

  - the individual claiming credit for the service must have been a member of the ERS on December 28, 2001.

  The cost of the service is the full actuarial cost. The service must be purchased in increments of one year unless total service is less than one year in which case the member must purchase the entire period.

  Members who purchase this service will forfeit the service if they have credit or become entitled to benefits for the service with any other public retirement plan.

- An active member with at least five years of contributing service, exclusive of military service, may purchase up to ten years of eligible previous service with a city, county, town, public or quasi-public organization, or political subdivision of a city or county of the state of Alabama (Section 12). To be able to purchase this service the following conditions must be met:

  - the service must have occurred before October 1, 1996, and with an employer other than the employer as of October 1, 1996,

  - the member claiming credit for the service must have been on October 1, 1996, an officer or a regular employee of a city, county, town, public or quasi-public organization, or political subdivision of a city or county of the state of Alabama eligible to participate in the ERS, and

  - the member must have been covered or eligible to be covered in the ERS on October 1, 1996.

  The cost of the service for each year of service purchased is the greater of the sum of the current employee and employer contribution rates of the member's compensation earned during the fiscal year in which payment is made or the average of his or her current annual earnable compensation for the two fiscal years immediately prior to the purchase. The member must purchase all service up to 10 years.

  Members who purchase this service will forfeit the service if they have credit or become entitled to benefits for the service with any other public retirement plan.

Out-of-State Public Service

Any active member with a minimum of 10 years contributing service, exclusive of purchased military service, may purchase up to ten years of out-of-state public service. The service to be purchased must have been credited under another public retirement plan, but cannot qualify the member for any benefits under any other public plan. The cost of purchasing credit for out-of-state public service is the full actuarial cost. The purchase must be completed prior to the member's retirement.

TRS Support Personnel, Teacher Aide, Job Corps, and Teacher Corps

This service may be purchased under the same conditions as out-of-state public service.

Non-Participating Employer Service

Any active member of a city retirement system that participates in the ERS may purchase up to eight years of credit for service earned under a non-participating employer funded by a city and a county which was eligible to participate in the ERS. The cost is the full actuarial cost and payment must be made prior to retirement.

Sources of Funds

Members of the ERS who are purchasing any type of permissible service as outlined previously in this section may do so by rolling funds from tax deferred savings plans such as tax sheltered annuities (IRC 403(b)), governmental deferred compensation plans (IRC 457) like RSA-1, IRAs (IRC 408), or qualified plans (IRC 401).

The member can have these funds transferred directly from the other plan to the ERS and avoid paying tax at the time of transfer, any early distribution penalty, or required withholding. The necessary form will be provided to members when they are notified of the cost for any service purchases.

Note: Eligibility for and cost of all service purchases are based on the provisions of law in effect at the time of purchase.

Death of a Member Prior to Retirement

Preretirement Death Benefit

If a member dies prior to retirement, death benefits are calculated and paid to the beneficiary(s) based on the member's age, service credit, employment status and eligibility for retirement. The preretirement death benefits the beneficiary(s) or estate will receive are outlined in the chart below.

Member Age	Years of Service Credit	Preretirement Death Benefit
Ineligible to Retire		
Under 60* or Over 60*	Between 1 and 25 Between 1 and 10	Member contributions, total interest earned, plus an amount equal to the member's salary for the prior fiscal year (October 1 - September 30)
Any Age*	Less than 1 year, death was job-related	Member contributions, total interest earned, plus an amount equal to the member's salary at time of death
Any Age	Less than 1 year, death was not job-related	Member contributions, total interest earned, plus an amount matching the contributions and interest but limited to a maximum of $5,000
Eligible to Retire or 25 Years of Service		
Any Age* or Over 60*	25 or more 10 or more	*Choice of:* (1) Option 3 monthly benefit (50% of member's retirement benefit) to the spouse or beneficiary *or* (2) Member contributions, total interest earned, plus an amount equal to the member's salary for the prior fiscal year (October 1 - September 30)

** If death occurs more than 180 calendar days after the member's last day in pay status or if the deceased had applied for a refund of contributions or terminated employment, the lump-sum payment will be the same as for status of less than 1 year and not job-related.*

The designated beneficiary(s) will receive the death benefit after the RSA-SB, Application for Survivor Benefit, and a certified death certificate have been submitted to the RSA. If there is no designated beneficiary, the death benefit will be paid to the member's estate.

Change of Beneficiary

When a new member joins the ERS, he or she designates a primary beneficiary(s) and contingent beneficiary(s) on the Form 100, Member Information Record. It is very important for the member to maintain a current beneficiary on record. If the member wishes to change the beneficiary designation, the change must be made on a Change of Beneficiary form. If the member is designating more than one primary or contingent beneficiary, a Form MB, Designation of Multiple Beneficiaries Prior to Retirement, must be completed.

If the primary beneficiary predeceases the member, the ERS will pay the contingent beneficiary the death benefit. If at the member's death, there is no beneficiary designated, the estate of the member will receive the appropriate death benefit.

To make beneficiary changes, retired members must contact the ERS for the proper form. See **Replacement Beneficiary** on page 20.

Reporting the Death of a Member

The beneficiary or family of a deceased active member should contact the Payroll/Personnel Officer of his or her place of employment for information and the appropriate forms. The ERS may be contacted if there are any questions about benefits or identity of beneficiaries.

The form to apply for the death benefit payable to the beneficiary of an active member is the Application for Survivor Benefit, Form RSA-SB. The beneficiary should use a current Form RSA-SB, which can be printed from the RSA Web site or mailed to the beneficiary. A certified original death certificate must accompany the form before the death benefit can be processed. If the estate is the beneficiary, either Letters of Testamentary or Letters of Administration are also required. If a minor child is the beneficiary, Letters of Conservatorship may be required.

Upon the death of a retired member, the beneficiary or family should contact the ERS for information and the appropriate forms.

Retirement Benefits

Service Retirement

Service retirement benefits are available to members who cease ERS-covered employment and meet minimum service and/or age requirements. The monthly retirement benefit is made for life without interruption unless there is a return to full-time employment with an ERS or TRS agency, or to temporary employment in excess of the limits to be described in **Postretirement Employment** on page 31.

A member is eligible to receive retirement benefits under the following conditions:

- he or she has at least 10 years of service credit and has attained the age of 60 (age 52 for State Police)

  Or

- after accumulating 25 years of service credit (30 years for agencies who have not adopted 25-year retirement) at any age.

A member is eligible to retire the first day of the month following attainment of age 60 with 10 years of creditable service or the first day of the month following attainment of 25 years of service credit (30 years for non-25-year retirement agencies). Members can only retire on the first day of any month they are eligible. Eligible members may convert unused sick leave days to service credit to meet the minimum requirement for service retirement. For additional information on **Sick Leave Conversion,** refer to page 18.

To apply for retirement, request a Retirement Application Packet Part I from the ERS. The application must be received no less than 30 days nor more than 90 days prior to the effective date of retirement. It is the responsibility of the member to notify the ERS in writing regarding intent to retire. Please include your full name and Social Security number or account number on all written correspondence.

Disability Retirement

If the career of an ERS member is cut short because of permanent disability, the member may qualify for monthly disability benefits. To qualify for a disability benefit, the member must meet all the following conditions:

1. The member must have 10 years of creditable service.

2. The member must be in-service. A member is considered in-service if currently working or on official leave of absence for one year, which may be extended for no more than one additional year. A member will not receive service credit for periods of leave without pay.

3. The ERS Medical Board must determine the member to be permanently incapacitated for the further performance of duty. The Medical Board bases its determination upon information provided by the member's physician.

Maximum monthly disability retirement benefits are calculated identically to those for service retirement, except that additional credit for sick leave cannot be converted to retirement credit.

To apply for disability retirement, request a Report of Disability Packet and Retirement Application Packet Part I from the ERS. The Statement by Examining Physician (included in the Report of Disability Packet) and the retirement application must be received by the ERS office no less than 30 days nor more than 90 days prior to the effective date of retirement, which is the first day of a month. The member is responsible for notifying the ERS regarding disability retirement.

A disability retiree will be reviewed once each year for the first five years and once every three year period thereafter until age 60 (age 52 for State Police) to determine whether the retired member remains disabled.

Please note that a member who terminates employment is not eligible to apply for disability retirement.

Checklist for Retirement

12 Months Prior to Retirement

- Closely review your most recent Annual Statement of Account. If you find discrepancies, call the ERS to speak with a counselor. If you did not receive the latest Annual Statement, call 877-517-0020, and inquire.
- Visit the RSA Web site, www.rsa-al.gov. Use the site calculator and get an unofficial estimate of your retirement benefits and, if eligible, DROP benefits.
- Resolve questions about purchasing any eligible service credit.
- Make sure that the RSA has your current home mailing address.
- Remember that your effective date of retirement must be the 1st of the month in which you wish to retire. Example: July 1 or January 1

11 Months Prior to Retirement

- Begin a list of what you will do with your time after retirement. Consider all of your possibilities: another career, part-time or full-time, volunteering, travel, pursuing hobbies, etc.
- Gather information on Social Security benefits and Medicare. The Social Security Web site address is: www.ssa.gov or you may call the local Social Security office.
- Review your health care and insurance options available after retirement. (If Medicare eligible, you must have Medicare Part A and Part B coverage to be effective on your retirement date. If you have health insurance coverage through the Alabama State Employees' Health Insurance Plan (SEIB), it will pay secondary as of this date. Medicare will be the primary coverage.)

10 Months Prior to Retirement

- Request an official estimate of your benefits using your planned retirement date.
- Continue to plan for your time after retirement.
- Meet with your financial advisor or attorney for planning purposes.
- Begin a list of all expenses or financial obligations you will have after retirement.
- Begin a list of any questions you have concerning your retirement, your benefit, health insurance, etc.

9 Months Prior to Retirement

- Consider making an appointment with a retirement counselor. Check the calendar of site visits in your area and call the ERS to arrange an appointment. If you are local, make your appointment for the Montgomery home office at 877-517-0020 or 334-517-7000.
- Compare your list of expenses after retirement to your anticipated retirement income.
- Continue to plan and review your retirement options.
- Check with your payroll or personnel office to verify leave status for planning purposes.
- Work on setting up a retirement income budget for your household.

8 Months Prior to Retirement

- Have you arranged your appointment with a counselor or at least decided on a time to do so?
- Complete your list of questions to ask the counselor.

7 Months Prior to Retirement

- Continue to plan for your time after retirement. Prepare yourself to face emotional, physical and financial adjustments.

6 Months Prior to Retirement

- Have your health insurance plans and financial arrangements in order.

5 Months Prior to Retirement

- Request the Retirement Application Packet Part I from your payroll office, or from our Web site, or call the ERS.
- Once the application is received, if applicable, examine carefully the insurance information located on the back of the application.
- Review your estate plan.
- Begin to make decisions concerning tax withholdings, etc.
- If contributing to RSA-1, call for information on your distribution options at retirement.

4 Months Prior to Retirement

- Work on completing your retirement application. If you have questions, seek answers. *Remember: The application must be submitted to the ERS no less than 30 days nor more than 90 days prior to the effective retirement date. If your application is received less than 30 days prior to your projected retirement date, your effective retirement date will be delayed until the following month.
- Begin to update your resume if you are planning to pursue employment after retirement.
- Study the regulations for postretirement employment.
- Research exercise and wellness programs.

3 Months Prior to Retirement

- The Retirement Application Packet Part I should be completed and ready to submit to:

  Employees' Retirement System
  Post Office Box 302150
  Montgomery, AL 36130-2150

- Strongly consider Direct Deposit for your monthly retirement check.
- Notify your employer in writing of your last date of service and subsequent retirement date. Keep a copy for your records.
- If you are eligible for Medicare, confirm your arrangements for coverage under Part A and Part B. For your records, jot down the date you spoke with the Social Security representative and his or her name.

2 Months Prior to Retirement

- Submit your retirement application to the ERS if you have not done so and check on your RSA-1 account to make sure you have completed any required paperwork.
- Promptly respond to any correspondence or communications you receive from the ERS or RSA-1.
- Check on your health insurance coverage to avoid any glitches or delays.
- Begin cleaning out your office or workstation. Try not to put this off to the last minute.
- Complete all necessary paperwork or obligations to your employing agency.

1 Month Prior to Retirement

- The retirement application must have been submitted to the ERS no less than 30 days from your projected retirement date.
- Fulfill all employment obligations and complete any outstanding paperwork.
- Be prepared to venture into the next exciting chapter of your life.
- Make sure that you receive the Retirement Benefit Option Selection and Tax Form Packet. These forms must be completed and submitted to ERS prior to the effective date of retirement.

Sick Leave Conversion

Sick leave conversion **only** applies to state of Alabama employees and employees of public agencies that elected to adopt this provision.

An ERS member may convert unused sick leave toward meeting the minimum service requirement for retirement eligibility instead of receiving any payment the member may be entitled to receive. The converted sick leave will be used in calculating the retirement benefit.

The following chart is used by the ERS to convert accumulated sick leave days to months of service credit upon service retirement. The employing agency determines the maximum days that may be converted.

Members cannot convert unused sick leave to retirement credit in order to meet the 10 year vesting requirement.

Accumulated Sick Leave Days	Months of Service
0-10	0
11-30	1
31-50	2
51-70	3
71-90	4
91-110	5
111-130	6
131-150	7
151-170	8
171-190	9
191-210	10
211-230	11
231-250	12
251-270	13
271-290	14
291-310	15
311-330	16
331-350	17
351-370	18
371-390	19
391-410	20
411-430	21
431-450	22
451-470	23
471-490	24
491-510	25
511-530	26
531-550	27
551-570	28
571-590	29
591-610	30
611-630	31
631-650	32
651-670	33
671-690	34
691-710	35
711-730	36

Computing Your Retirement Benefit

A member's retirement benefit is calculated based on a retirement formula. The factors used in calculating this benefit include:

1. **Average Final Salary:** The average of the highest three years (October - September) out of the last 10 years the member made contributions. Partial years are included when calculating the average final salary.

2. **Years and Months of Creditable Service:** The total amount of creditable service to include membership service, prior service, purchased service and transfer service.

3. **Benefit Factor:** The current benefit factor, as established by the State Legislature, is 2.0125%.*

Retirement Formula for Maximum Monthly Benefit

Average Final Salary x Years and Months of Service x Benefit Factor ÷ 12 = Maximum Monthly Benefit

Example: Average Final Salary: $35,000
Service Credit: 27 years and 6 months

$35,000 x 27.5 x .020125 ÷ 12 = $1,614.19 per month

The member also has four options to choose from that are a reduction from the Maximum Monthly Benefit.

** 2.875% for State Police*

Maximum or Optional Monthly Benefit

The member must select either the Maximum Monthly Benefit or one of the Optional Monthly Benefits on the RETIREMENT BENEFIT OPTION SELECTION form. Failure to select either the Maximum Monthly Benefit or one of the Optional Monthly Benefits will, by law, result in the Maximum Monthly Benefit as the member's retirement benefit selection.

Maximum Monthly Benefit

The Maximum Monthly Benefit is the largest monthly benefit available to a retiring member of the ERS. This benefit is a lifetime benefit paid to the retiree on a monthly basis. At the death of the retiree, all monthly benefits cease. The designated beneficiary(s) will only receive a one-time prorated monthly benefit covering the days of the month that the retiree was still living.

Optional Monthly Benefit

A member may provide a benefit for a beneficiary by selecting one of the following options.

Option 1

The monthly benefit under Option 1 is slightly less than the maximum. This benefit is a lifetime benefit paid to the retiree on a monthly basis; however, if the retiree dies prior to receiving annuity payments exceeding his or her account balance, the remaining annuity balance will be paid to the designated beneficiary(s). The annuity balance, if any, is the amount of unused contributions and interest remaining in the retiree's account.

Option 2 (100% Survivor Benefit)

Option 2 allows the retiree to receive a reduced benefit over the life of the retiree in return for allowing the designated beneficiary (only one beneficiary may be designated) to receive the same lifetime benefit after the retiree's death. The benefits are based on the variance in age between the retiree and the beneficiary. Therefore, once the member retires, he or she cannot change their beneficiary unless the beneficiary predeceases the retiree or if the retiree and the beneficiary become divorced. See **Replacement Beneficiary**.

Option 3 (50% Survivor Benefit)

Option 3 allows the retiree to receive a reduced benefit over the life of the retiree in return for allowing the designated beneficiary (only one beneficiary may be designated) to receive one-half the retiree benefit over the beneficiary's lifetime after the retiree's death. The benefits are based on the variance in age between the retiree and the beneficiary. Therefore, once the member retires, he or she cannot change their beneficiary unless the beneficiary predeceases the retiree or if the retiree and the beneficiary become divorced. See **Replacement Beneficiary**.

Option 4

Members may elect to receive a monthly benefit actuarially equivalent to the regular retirement benefit and must meet the ERS' actuarial assumptions. The ERS Board of Control must approve this option. The monthly benefit paid to the beneficiary cannot exceed the limits determined by federal taxation laws. See **Replacement Beneficiary**.

Replacement Beneficiary

Retirees who elected joint survivor options (Option 2, 3 or 4) at the time of retirement may name a new beneficiary under either of the two following conditions:

1. If the named beneficiary dies before the retired member

   Or

2. There is a divorce between the retired member and the beneficiary

The retired member should contact the ERS for information and forms. There will be a recalculation of the benefit amount for the retired member and replacement beneficiary. The replacement beneficiary must be in place for at least two years for the monthly survivor benefits to become effective. However, if the retired member dies within this two year period, only a prorata payment for the portion of the month the retiree was alive will be paid to the beneficiary.

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Table of Maximum Monthly Retirement Benefit

Average Final Salary	Years of Creditable Service							
	10	12	14	16	18	20	22	24
$10,000	168	201	235	268	302	335	369	402
12,000	201	242	282	322	362	403	443	483
15,000	252	302	352	403	453	503	553	604
17,000	285	342	399	456	513	570	627	684
20,000	335	402	469	536	604	671	743	805
22,500	377	453	528	604	679	755	830	906
25,000	419	503	586	670	755	839	922	1006
27,500	461	553	646	738	830	922	1015	1107
30,000	503	603	704	806	906	1006	1106	1208
32,500	545	654	763	872	981	1090	1199	1308
35,000	587	704	822	939	1057	1174	1291	1409
37,500	629	755	880	1006	1132	1258	1384	1509
40,000	671	805	939	1073	1208	1342	1476	1610
45,000	755	906	1057	1208	1358	1509	1660	1811
50,000	839	1006	1174	1342	1509	1677	1845	2013
55,000	922	1107	1291	1476	1660	1845	2029	2214
60,000	1006	1208	1409	1610	1811	2013	2214	2415
65,000	1090	1308	1526	1744	1962	2180	2398	2616
70,000	1174	1409	1644	1878	2113	2348	2583	2818
75,000	1258	1509	1761	2012	2264	2516	2767	3019
80,000	1342	1610	1878	2147	2415	2683	2952	3220
85,000	1426	1711	1996	2281	2566	2851	3136	3421
90,000	1509	1811	2113	2415	2717	3019	3321	3623

Note: Average Final Salary is the average of the highest three years (October - September) out of the last 10 years the member made contributions. Partial years are included when calculating the average final salary if they benefit the member.

To compute the maximum monthly retiree benefit, the following formula is used:

Average Final Salary x Years and Months of Service x Benefit Factor (.020125) ÷ 12

Table of Maximum Monthly Retirement Benefit

Average Final Salary	Years of Creditable Service							
	25	26	28	30	32	34	36	38
$10,000	419	436	470	503	537	570	604	637
12,000	503	523	564	604	644	684	725	765
15,000	629	654	704	755	805	855	906	956
17,000	713	741	798	855	912	969	1026	1083
20,000	839	872	939	1006	1073	1140	1208	1275
22,500	943	981	1057	1132	1208	1283	1358	1434
25,000	1048	1090	1174	1258	1342	1426	1509	1593
27,500	1153	1199	1291	1384	1476	1568	1660	1753
30,000	1258	1308	1408	1510	1610	1710	1812	1912
32,500	1365	1420	1529	1638	1748	1857	1966	2075
35,000	1467	1526	1644	1761	1878	1996	2113	2231
37,500	1572	1635	1761	1887	2012	2138	2264	2390
40,000	1677	1744	1878	2013	2147	2281	2415	2549
45,000	1887	1962	2113	2264	2415	2566	2717	2868
50,000	2096	2180	2348	2516	2683	2851	3019	3186
55,000	2306	2398	2583	2767	2952	3136	3321	3505
60,000	2516	2616	2817	3019	3220	3421	3623	3824
65,000	2725	2834	3052	3270	3488	3706	3924	4142
70,000	2935	3052	3287	3522	3757	3991	4226	4461
75,000	3145	3270	3522	3773	4025	4277	4528	4780
80,000	3354	3488	3757	4025	4293	4562	4830	5098
85,000	3564	3706	3991	4277	4562	4847	5132	5417
90,000	3774	3924	4226	4528	4830	5132	5434	5736

Note: Average Final Salary is the average of the highest three years (October - September) out of the last 10 years the member made contributions. Partial years are included when calculating the average final salary if they benefit the member.

To compute the maximum monthly retiree benefit, the following formula is used:

Average Final Salary x Years and Months of Service x Benefit Factor (.020125) ÷ 12

Tax Information

Retirement benefits from the ERS are subject to federal income tax. Previously taxed contributions, including payments made to purchase additional service credit using pre-taxed monies, are exempt from federal taxation over a period equal to the number of monthly benefit payments that the retiree is expected to receive. All retirees will receive a Form 1099-R Income Statement every January for use in filing a personal income tax return. The 1099-R will report the retirement benefits subject to federal income tax.

If you reside in Alabama, RSA retirement benefits are not subject to state of Alabama income tax. If you reside in another state, check with that state's revenue department to determine your tax status.

Elected Officials

Elected Officials may participate in the ERS provided the counties in which they reside have adopted a local Constitutional Amendment to provide for coverage of elected officials. The provisions of the Constitutional Amendment determine which elected official positions are eligible for ERS coverage.

The Elected Official must meet the same eligibility requirements as other participants of the ERS. The eligibility requirements may be reviewed in the **Membership** section of this handbook (page 6).

Elected Officials may purchase credit for their prior service as an Elected Official under the following conditions:

- Service must be in the same position that the Official is/was serving at time of ratification of the Constitutional Amendment.
- Public Official must pay an amount equal to the total contributions that would have been paid by the member had he or she been eligible to participate in the ERS during the period of claimed service plus eight percent (8%) interest compounded annually from the date of such service.
- Certification of Elected Official service must be provided to the ERS on a Form F, Service Calculation Form. The employer should certify the dates of service and compensation paid by fiscal year (October 1 through September 30).
- Public Official may purchase the service provided he or she has not received credit for the service in any other public pension fund.

Deferred Retirement Option Plan (DROP)

DROP is an optional program which offers qualified active members a way to continue to work while accumulating funds in a DROP account to be distributed at retirement.

Requirements for DROP Participation

To be eligible to participate in DROP, the member must meet **all** of the following requirements:

1. Have at least **25** years of creditable service exclusive of sick leave (you cannot convert sick leave into creditable service to become DROP eligible)

2. Be at least **55** (**52** for a State Policeman) years of age

3. Be eligible for service retirement

4. For non-state agencies, a member's employing agency must be under the provisions of law that allows for DROP participation.

A member may participate in DROP only **one** time.

Election to Participate in DROP

The participation period for DROP is for a minimum of three years, but not more than five years. Once the member has completed the three-year minimum requirement and terminated employment, he or she is eligible to receive either a lump-sum payment or make a direct rollover of the entire account to a qualified plan. A DROP participant may terminate DROP anytime between three years and five years (for example, three years and eight months or four years and three months). The termination date must be the last day of a month. No payment can be made unless the member ceases employment.

A penalty will result for members who **voluntarily** terminate employment or withdraw from DROP in the first three years of DROP participation. There is no penalty for **involuntary termination, disability, involuntary transfer of his or her spouse, or death of the participant** in the first three years.

Applying for Participation in DROP

A member is eligible to apply to enter DROP whenever he or she meets the requirements for participation. However, the member must have the DROP Contract and Application to the ERS at least 30 days, but not more than 90 days, before the effective date of participation in DROP. The effective date of participation must be the first day of a month. Contact the ERS to request the DROP Contract and Application or download the form from our Web site.

Entering DROP

Maximum or Optional Retirement Allowance

At the beginning of the participation period, the member must select between the Maximum Monthly Benefit or one of the Options the same as he or she would do if retiring. **This option selection is an irrevocable, one-time election.** If the member does not make this selection, by law he or she will automatically receive the Maximum. This monthly retirement allowance will be paid into the member's DROP account.

Converting Accrued Sick Leave

Accrued sick leave may **not** be converted to service credit for the purpose of establishing DROP eligibility, nor used in calculating the monthly retirement allowance upon entering DROP. At the time the member leaves service, the monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted or for which the member may receive payment cannot exceed the number of days the participant had on the date he or she entered DROP.

Example:

If a member had 100 days of sick leave upon entering DROP and accrued 20 more sick leave days during DROP, he or she may only convert 100 sick leave days to service credit. If a DROP participant has 100 sick leave days upon entering DROP and used all of his or her sick leave accrued during DROP plus another 20 days of sick leave, the DROP

participant may only convert the remaining 80 days of sick leave to service credit.

Service Credit

The member's service credit will remain the same during DROP participation as when he or she entered DROP. No time spent participating in DROP will be counted as creditable service.

Purchasing Service Credit

Once a member enters DROP, service credit purchases are prohibited.

Contributions

Both the employer and the member will continue making contributions as required by law to the ERS during the DROP participation period.

Prevention of Extraordinary Benefits or Incentives

No employer whose employees are covered under the ERS can offer any incentives such as monetary payments, prepayment of health insurance, or extraordinary payments for accrued leave, solely for the purpose of enticing employees to elect to participate in DROP. This does not apply to regular payments for leave or contributions toward health insurance.

The DROP Account

The DROP account funds are generated from three sources:

1. **Monthly Retirement Allowance**
   The monthly retirement allowance that normally would have been paid to the member if he or she had retired will be placed in the member's DROP account. There will be no deductions for taxes, health insurance, or Social Security.

2. **Member Contributions**
   The 5% (regular members), 6% (full-time certified firefighters, correctional officers, and law enforcement officers) or 10% (State Police) member contribution will be placed in the member's DROP account.

3. **Interest**
   The DROP account will earn interest at the same rate as active member accounts (currently four percent).

Retiree Cost-of-Living Adjustments (COLAs)

A member participating in DROP is not eligible to receive retiree COLAs. A member is not eligible to receive a retiree COLA until he or she has withdrawn from service and has been receiving a retirement allowance for one year.

Active Employee COLAs and Salary Increases

Participants in DROP may receive active COLAs and salary increases.

Health Insurance

A member's health insurance benefits will continue to be provided through the member's employing agency.

Annual and Sick Leave

Participants in DROP will continue to accrue sick and annual leave. See **Converting Accrued Sick Leave** on page 25 for more information.

No Fees

DROP is not subject to fees, charges or other similar expenses of any kind.

Employee Rights

Participation in DROP does not affect the rights of any state employee under the state personnel system, including, but not limited to, his or her rights to longevity pay. The election to enter DROP is between the ERS and the member. In no way should it be construed as a guarantee of continued employment for the DROP participation period, nor as a requirement that a participant terminate employment at the end of the DROP participation period. Continued employment and termination of employment are matters between the employer and employee.

Military Leave While Participating in DROP

A DROP participant may go on military leave without penalty provided he or she does not terminate employment. The period of military leave is included in the DROP participation period.

Withdrawal from DROP

Completion of Contractual Obligation

A member who completes his or her contractual obligation in DROP, i.e., participates in DROP between three to five years, may elect to receive the following in either a lump-sum payment or make a direct rollover to a qualified plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.

2. Member contributions made to the ERS during the DROP participation period plus applicable interest.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service. If the member continues employment with an agency participating in the RSA, he or she will not be able to receive distribution until he or she terminates employment.

Involuntary Termination, Disability, or Involuntary Transfer of Spouse in First Three Years of DROP Participation

A member who did not fulfill his or her contractual obligation due to involuntary termination, disability, or involuntary transfer of spouse in the first three years of the DROP participation period may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to a qualified plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.

2. Member contributions made to the ERS during the DROP participation period plus applicable interest.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service.

Voluntary Termination within the First Three Years of DROP Participation

A member who withdraws from service voluntarily within the first three years of DROP will **forfeit** the DROP contributions based on the monthly retirement allowance paid into his or her account. He or she may elect to receive the following in either a lump-sum payment or make a direct rollover to a qualified plan:

1. Member contributions made to the ERS during the DROP participation period plus applicable interest.

2. Interest attributable to the monthly retirement allowance contributions made to the DROP account during the DROP participation period.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service.

Death During DROP Participation

If the member dies anytime during the DROP participation period and the beneficiary is the spouse, the **spouse** may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to a qualified plan. **Non-spouse** beneficiary(s) may receive the following contributions in a lump-sum payment or make a direct rollover to an IRA:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.

2. Member contributions made to the ERS during the DROP participation period plus applicable interest.

Any retirement benefit based on the retirement option selected by the member at the beginning of the DROP participation period will be paid to the beneficiary(s). The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The beneficiary is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

No death before retirement benefit will be paid to the estate or beneficiary.

Continued Service after the DROP Participation Period

If the member does not withdraw from service after completing his or her DROP participation, the member will resume active contributing membership in the ERS for the purpose of earning creditable service. No time spent participating in DROP will be counted as creditable service.

Example:

If a member had 26 years of creditable service upon entering DROP and participated in DROP for five years; then worked two more years after completing his or her contractual obligation in DROP, the member would only have 28 years of total creditable service. There would be two separate retirement allowance calculations; one based on 26 years and the other based on two years of service.

Upon withdrawal from service, the member may elect to receive the following contributions in either a lump-sum distribution or make a direct rollover to a qualified plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.

2. Member contributions made to the ERS during the DROP participation period plus applicable interest.

The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

An additional monthly retirement allowance based on his or her additional service since the end of the DROP participation period will be calculated using the retirement formula (Average Final Salary x Additional Years and Months of Service x 2.0125%*). The Average Final Salary will be calculated only on the additional service since the end of DROP participation. **This additional service can in no way be combined with service prior to participation in DROP.** The retirement option will be the same option used in the original retirement allowance.

If the member dies or becomes disabled during the period of additional service, he or she will be considered as having retired on the date of death or commencement of disability. No death before retirement benefits will be made.

**2.875% for a State Policeman*

Distribution of DROP Account

No distributions from a member's DROP account will be made until the member terminates employment with any RSA participating agency. DROP participants have one of two ways to distribute the funds in their DROP account:

1. Receive a lump-sum payment of the total DROP account balance less the required 20% federal income tax withholding. No portion of the distribution is subject to state of Alabama income tax.

2. Rollover the account balance to a traditional IRA, another employer retirement plan, a 403(b) Tax Sheltered Annuity, or a governmental 457(b) plan that accepts rollovers. The RSA-1 Deferred Compensation Plan accepts rollovers from your RSA DROP account.

Read the **Special Tax Notice Regarding Plan Payments** prior to making your selection. Request a DROP distribution brochure from the ERS or download it from our Web site.

To either receive a lump-sum payment or make a direct rollover of the DROP account, complete the Request for DROP and Rollover Election (RSA 10 D-D) form and the Request for DROP Termination (ERS 10 D-C) form and return both to the ERS.

Reemployment with the RSA after Withdrawal from Service

Any member who participated in DROP and withdrew from service may become reemployed with either the TRS or ERS. This additional service will be calculated based on information in **Continued Service after the DROP Participation Period** on page 28.

City, County, Town, Public or Quasi-Public Organization, or Political Subdivision (Section 12)

The governing body of Section 12 units must elect to come under the provisions of DROP and assume any costs associated with implementation of DROP. Once the Section 12 unit exercises the option to participate in DROP, the option is irreversible. Any agency that elected to participate in the ERS on or after February 1, 2002, is required to participate under the DROP provisions.

Calculating Your DROP Benefit

The following is a step-by-step method of calculating your DROP benefit. This is only an estimate. When you are ready to make a decision about entering DROP, contact the ERS for an official estimate. The retirement benefit calculator on our Web site will also calculate the DROP benefit for eligible members.

1. Determine your monthly retirement benefit at the DROP participation date.

   Average Final Salary x Years and Months of Service x .020125* ÷ 12 = Monthly Retirement Benefit

   The Average Final Salary is the average of the highest three annual salaries in the member's last 10 years of creditable service for which the member made contributions.

   This formula will only compute the Maximum monthly retirement benefit. For Options 1, 2, or 3, use the benefit calculator on our Web site to determine the monthly retirement benefit.

   ** .02875 for a State Policeman*

2. Multiply the monthly retirement benefit times the factor associated with the number of years you elect to participate in DROP to give you the DROP contributions value including interest.

   1 year - 12.24
   2 years - 24.97
   3 years - 38.21
   4 years - 51.98
   5 years - 66.30

3. Determine the value of your contributions, plus interest, made during the DROP participation period.

   Multiply the average salary (estimated) during the DROP participation period times the factor for the number of years you elect to participate in DROP.

   1 year - .0510
   2 years - .1040
   3 years - .1592
   4 years - .2166
   5 years - .2762

4. Add the two amounts together to give you an estimated value of your DROP benefit at the end of the DROP participation period.

Example:
At the DROP participation date the member had an average final salary of $58,000; 32 years of service; and selects the Maximum retirement benefit. The member elects a four-year DROP participation period and estimates that the salary for the next four years will average $60,500.

1. Monthly retirement benefit:
   $58,000 x 32 x .020125* ÷ 12 =
   $3,112.67

2. DROP contribution value including interest:
   $3,112.67 x 51.98 = $161,796.58

3. Member contributions including interest:
   $60,500 x .2166 = $13,104.30

4. Total DROP benefit:
   $161,796.58 + $13,104.30 =
   $174,900.88

   ** .02875 for a State Policeman*

Postretirement Employment

Limitation on Earnings

An ERS service retiree employed with an ERS or TRS member agency may continue to receive retirement benefits provided the retired member meets **both** of the following conditions:

1. The retiree must not be employed or under contract for permanent, full-time employment.

2. The retiree's compensation cannot exceed the limitation on earnings. The limits are subject to change each year based upon the Consumer Price Index (CPI). The limit for the 2008 calendar year is $21,000.

If a retiree's compensation exceeds the annual limitation on earnings, the retirement benefit will be suspended for the remainder of the calendar year or for the remainder of the month if the retiree is subject to a monthly earnings limitation.

- Retirees who return to work with an ERS or TRS member agency in the same calendar year as their retirement are subject to a monthly earnings limitation, except those who retire on January 1. The monthly limitation is 1/12 of the yearly limitation, which for 2008 is $1,750. Retirees who retire effective January 1 of a given year are only subject to the annual earnings limitation amount.

- Retirees who return to work with an ERS or TRS member agency in a subsequent year from their retirement are subject to a yearly earnings limitation.

- If an ERS or TRS retiree exceeds the annual or monthly limitation on earnings, the employing agency must notify the RSA immediately. Any questions concerning postretirement law should be directed to the ERS.

Employment with the TRS

An ERS retiree who is employed with a TRS member agency in a position eligible for retirement coverage must begin participation in the TRS. The member's ERS retirement account will be terminated and remaining funds and creditable service will be transferred and credited to the new TRS account.

Disability Retiree

A disability retiree employed with an ERS or TRS participating agency is subject to the following limitation: The lesser of the same limitations as a service retiree or the difference between the average final salary and the annual retirement benefit.

If the retiree is employed with a non-ERS or non-TRS agency, in private industry or private education, earnings cannot exceed the difference between the average final salary and the annual retirement benefit. The earnings restriction is waived upon attaining age 60.*

**Age 52 for a State Policeman*

Contract Employment

Retirees providing services to ERS or TRS agencies on a contractual basis may be subject to the limitations on compensation. If an ERS or TRS agency has entered into a contract with an ERS or TRS retiree, please provide a copy of the contract to the ERS to confirm whether or not this contract would violate the postretirement employment law.

Private Employment

There are no limitations on earnings for a **service** retiree employed in private industry, private education, or a non-participating RSA agency.

Full-Time Employment with the ERS

An ERS retiree who is employed full-time with an ERS member agency must have his or her retirement benefit suspended until he or she withdraws from service again. If the retiree is employed in a position eligible for retirement coverage for a period of two years and the retiree did not participate in DROP, he or she may petition the ERS Board of Control to permit the resumption of participation in the ERS. Upon approval, the member would pay the contributions of the two-year period of non-contributing service and begin contributing on future compensation.

Upon subsequent termination of employment, the member's retirement benefit will be recalculated to include service accrued since reemployment. The member would also be allowed to reselect a retirement option and beneficiary.

For DROP participants who are reemployed after ceasing DROP participation, see page 28.

Elected Officials

An ERS retiree who is elected or appointed to an office that is covered under the ERS must have their benefit suspended once compensation from the office exceeds the annual limitation on earnings.

An ERS retiree who becomes an elected official and participates in a supernumerary plan or any other retirement plan funded by public funds shall have their ERS benefit suspended.

Firefighters, Correctional Officers, and Law Enforcement Officers

Any **certified, full-time** firefighter, correctional officer or law enforcement officer not covered under the State Police retirement plan may receive one additional year of retirement credit for every five years of employment for which the member has remitted the appropriate hazardous duty payment. The member must be certified by either 1) the Firefighters Personnel Standards and Education Commission as having a level one minimum standard certification, 2) the State Forester as having met the Wildland Firefighter Training Standard of the National Wildlife Coordinating Group, or 3) the Alabama Peace Officers Standards and Training Commission as a certified correctional officer or certified law enforcement officer.

Each certified, full-time firefighter, correctional officer or law enforcement officer must contribute six percent of salary to the ERS. The member must contribute at the six percent rate on **all** compensation paid by all ERS member employing agencies.

Act 2004-637 permits eligible members participating in the ERS as employees of a city, county, public or quasi-public agency to purchase hazardous duty service credit, provided the member has **not** had a prior period of eligibility to purchase hazardous duty service credit. This provision does **not** apply to state employees.

To obtain the additional credit, the member must pay to the ERS one percent of the higher of his or her current salary or the previous year's salary for each year of claimed service. The service must be purchased in five-year increments unless the total service is less than five years, in which case the service must be purchased in its entirety. An eligible member must purchase service credit by **July 31, 2005**, or within one (1) year of his or her enrollment in the ERS.

The additional retirement credit purchased cannot be used to meet the service requirements for retirement eligibility. The credit will be granted upon attainment of the requisite years of creditable service or when the member qualifies for service or disability retirement. Prior service earned before certification as a full-time firefighter, correctional officer or law enforcement officer cannot be purchased.

RSA-1 Deferred Compensation Plan

The RSA-1 Deferred Compensation Plan was established to allow public employees to defer receipt of a portion of their salary until a later determined date, usually at retirement or termination of service. Because receipt of the income is deferred, the deferred income is not included in the employee's federal or state of Alabama gross taxable income.

The majority of people working today expect their retirement income to come from three sources: their pension plan, Social Security, and personal savings. With experts estimating that a person will require between 70 and 80 percent of his or her preretirement income, increasing your personal savings is a good retirement strategy to help supplement your retirement income.

One way for public employees in Alabama to increase their personal savings and add to their financial security is by investing in an Internal Revenue Code Section 457 Deferred Compensation Plan like RSA-1. RSA-1 offers an easy and flexible way to save for retirement through payroll deduction while providing tax relief today.

Employee Eligibility

Any public official or employee of the state of Alabama or any political subdivision thereof is eligible to participate in the RSA-1 Deferred Compensation Plan, regardless of age or participation in the RSA. Participation in RSA-1 is strictly voluntary.

Employee Enrollment

You can enroll in RSA-1 at any time. There are no administrative, membership, investment transaction, sales or commission fees for participating in RSA-1. All the money you defer and all investment earnings are placed into your account.

To participate in RSA-1:

1. An employee must complete the Member Record form and the Investment Option Election form and submit the completed forms to the RSA-1 Deferred Compensation Plan office at the RSA to establish an account.

2. If you wish to have more than one primary or contingent beneficiary, complete the Multiple Beneficiary Designation form and submit along with the Member Record and Investment Option Election forms to RSA-1.

3. Initiate salary deferrals by filing an Authorization to Defer Compensation form with your payroll officer. Do not send the Authorization to Defer Compensation form to RSA-1 or the RSA. This form simply authorizes your payroll officer to defer money from your salary.

Easy to Make Deferrals

1. Deferrals may be in any amount desired by the participant as long as the participant does not exceed the maximum deferral allowable.

2. The amount of the participant's deferral may be increased, decreased or suspended as often as the participant wishes, subject only to employer payroll requirements.

3. You can only defer contributions to RSA-1 through payroll deductions.

Rollovers

Members may defer taxes on their sick and annual leave pay by rolling over these payments to RSA-1 at termination of employment. RSA members may also rollover their RSA DROP account funds to RSA-1 at termination of employment. Rollover of RSA DROP account funds and sick and/or annual leave results in a direct tax savings to you.

Beginning January 1, 2007, RSA-1 will accept trustee-to-trustee transfers from other Section 457 plans. RSA members must establish an RSA-1 account prior to the transfer. Funds transferred from other Section 457 accounts must never have been from any source other than 457(b).

Tax Savings

The following is an example of how participation in RSA-1 can help you reduce current taxes:
Assume:

- An employee earning $1,000 bi-weekly
- Deferring $100 into RSA-1 bi-weekly
- Filing as single with one withholding allowance

Contributing to RSA-1		**Not Contributing to RSA-1**	
Bi-weekly pay	$1,000.00	Bi-weekly pay	$1,000.00
RSA-1 Deferral	$100.00	RSA-1 Deferral	$0.00
5% Retirement Contribution	$50.00	5% Retirement Contribution	$50.00
Federal Tax	**$77.31**	Federal Tax	$92.31
State Tax	**$32.00**	State Tax	$36.00
FICA	$76.50	FICA	$76.50
Take-Home Pay	*$664.19*	*Take-Home Pay*	*$745.19*

In this example, deferring $100 only decreases your take-home pay by $81 while saving $19 on taxes. (Based on 2008 tax tables.)

Retirement Savings

Effect of Saving Over a 25 Year Period*				**Effect of Saving Over a 30 Year Period***			
Monthly Deferral Amount	*Assumed Earnings Rate*			*Monthly Deferral Amount*	*Assumed Earnings Rate*		
	6%	*7%*	*8%*		*6%*	*7%*	*8%*
$25	17,324.85	20,251.79	23,775.66	$25	25,112.88	30,499.27	37,258.99
$50	34,649.70	40,503.58	47,551.32	$50	50,225.75	60,998.55	74,517.97
$100	69,299.40	81,007.17	95,102.64	$100	100,451.50	121,997.10	149,035.94
$200	138,598.79	162,014.34	190,205.28	$200	200,903.01	243,994.20	298,071.89
$400	277,197.58	324,028.68	380,410.56	$400	401,806.02	487,988.40	596,143.78

**These examples are provided for illustration purposes only and do not guarantee that the fund will perform at this level in the future.*

Contact RSA-1

For more information about RSA-1 and the forms necessary to enroll, contact RSA-1 at 877-517-0020; email RSA-1 at rsa1info@rsa-al.gov; or download the information from our Web site.

Retiree Information

Cost-of-Living Adjustments (COLAs)

Cost-of-Living Adjustments for retirees are made on an ad hoc basis by the State Legislature. The amount of the increase is based upon the provisions of the legislation.

Cost-of-Living Adjustments for retirees of Section 12 agencies (non-state member agencies) usually require the approval of the governing body of the ERS agency, which must fund the cost of living increase for persons retired from that agency.

Direct Deposit

The ERS strongly encourages retirees to elect to have their retirement benefit checks sent directly to their bank by electronic funds transfer (EFT), also known as direct deposit. Members using direct deposit do not have to worry about lost, stolen, or damaged checks, nor arrange for someone to deposit their checks when they are out of town or unable to go to the bank. This service is free, secure, reliable and convenient.

To obtain a Direct Deposit Authorization form, contact the ERS or download the form from our Web site.

Deductions from Your Retirement Benefit Check

The following amounts may be deducted from your retirement benefit check:

- federal income taxes
- health insurance premiums if applicable

If you move to another state, your benefit will be subject to that state's tax laws. You can find information about other states' tax laws at www.1040.com. Your benefit is **not** subject to Alabama income tax.

When Checks Are Mailed

Retirement benefit checks are mailed on the last working day of the month. If you have direct deposit, your retirement benefit will be electronically transferred to your account on the last working day of the month.

RSA Publications and Notifications

Member Handbooks

(ERS, TRS, State Police, and JRF)
Each Member Handbook presents an overview of mandatory participation, creditable service, vesting, disability and service retirement, preretirement death benefits and postretirement employment. Each agency is sent a supply of the handbooks. Each new member is mailed a handbook upon receipt of an enrollment form from the employing agency. A handbook can be requested at any time.

RSA-1 Deferred Compensation Plan Member Handbook

RSA-1 is a voluntary deferred compensation plan governed by Section 457 of the Internal Revenue Service Code. The RSA will provide an RSA-1 Enrollment Packet at the request of the member or the agency.

Educational Opportunities

The RSA offers its members several opportunities for retirement education. Retirement Preparation Seminars are offered at various sites throughout Alabama. This program helps members to begin or continue their planning and preparation for retirement. The Ret Prep Seminars are full-day programs. Schedules for these seminars are released once a year. The registration packets including the schedule are mailed to Human Resource Offices and Payroll Offices. All schedules and forms are placed on the RSA Web site for our members' convenience.

Individual counseling appointments are offered across the state as well. These are twenty-minute appointments with an ERS counselor. The counselor will answer your questions and review your estimate of benefits. Schedules are released once a year and are placed on the RSA Web site.

ERS members are always welcome to come to the RSA Executive Building on the corner of Union and Adams in Montgomery. Appointments are nice but not necessary. All walk-ins are welcome.

RSA Annual Report

In February of each year, the RSA publishes the Annual Report. The report provides information about assets, investments, membership, the RSA Boards of Control, RSA departments, and financial statements.

Comprehensive Annual Financial Report (CAFR)

The CAFR, which is published annually, provides more detailed financial and actuarial information about the RSA.

RSA Newsletter

The monthly *Advisor* is mailed to each RSA active member, RSA retired member, and any other persons or organizations interested in the RSA. The *Advisor* informs recipients of important topics regarding the TRS, ERS, RSA-1, PEIRAF, PEEHIP, legislation, investments and counseling schedules. Comparisons of insurance and retirement benefits provided by other states and current information regarding Social Security, taxes and Alabama's economic and political climate are also featured.

RSA Web Site (www.rsa-al.gov)

The RSA Web site publishes RSA's member handbooks, the *Advisor*, Annual Reports and information about the ERS, TRS, PEIRAF, RSA-1 and PEEHIP benefits. News from RSA features updates on policies, procedures, new legislation, federal laws and other late-breaking events. The Web site also offers links to other state and federal agencies, as well as RSA's investments, such as the Robert Trent Jones Golf Trail and the Grand Hotel.

Legislative Updates keep members informed about legislative news, current legislation and archive legislation. The Retirement Benefits Estimate Calculator and DROP Calculator allow members to estimate retirement benefits under the Maximum allowance and Options 1, 2, and 3, and if eligible,

DROP benefits. Information about Retirement Preparation Seminars, Agency Seminars and Individual Counseling Sessions is listed under Retirement Planning.

Annual Statement of Account

The ERS provides each member a Statement of Account for the year ending September 30. The statements are mailed directly to the member's home mailing address in early December.

The Statement of Account verifies current year contributions and accumulated interest. The total service credit, interest, service purchases, previously taxed contributions, non-taxed contributions, and balance are also provided. The member's designated beneficiary, mailing address, and change of address as of September 30 are listed.

RSA-1 Statement

For those electing to participate in the RSA-1 Deferred Compensation Plan, a statement is sent to the member's mailing address semi-annually. The statement verifies the balance and earnings as of March 31 and September 30. The member's designated beneficiary is also listed.

DROP Account Statement

Each DROP participant receives a statement shortly after the close of each fiscal year (September 30) detailing the preceding year's transactions and giving a year-end account balance.

Postretirement Employment Notification

Each year, the ERS provides the participating agency information regarding postretirement earnings limitations and the requirement for certifying postretirement employment information.

The law mandates that the employer notify the ERS when a retired, RSA member is employed full-time. If the retired, RSA member is not employed full-time, the agency must notify the ERS when the retiree's earnings exceed the earnings limit.

Terminated Account Information Request

The ERS may request mailing address information from participating agencies about former employees whose retirement accounts have been terminated due to an absence of participation. The ERS reviews terminated accounts throughout the year and will try to locate the former member to be able to return contributions. Vested accounts (with 10 years of service) will not be terminated.

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