

Employees Who Are Eligible to Retire: Legislative Impact on Benefits

**Satellite Conference and Live Webcast
Thursday, August 25, 2011
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**Produced by the Alabama Department of Public Health
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Payroll Update

Faculty

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State Comptroller
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Upcoming Payroll Increases

- **Retirement Contributions**
- **Social Security FICA Tax**

Retirement Contributions

- **Act 2011-676**
 - **Employee Retirement Fund Member Contributions Act**
 - **Signed into law by Governor Robert Bentley on June 15, 2011**
 - **Increases employees' contribution for retirement benefits by 2.5%**

Retirement Contributions

- **Effective for all pay dates beginning on or after October 1, 2011 (FY 2012)**
- **Phase-in period over two years**
 - **October 1, 2011 – 2.25% increase**
 - **October 1, 2012 – 0.25% increase**

Social Security FICA Tax

- Congress reduced the Social Security FICA tax rate to 4.2% in 2011
 - 2% decrease
- Social Security FICA tax is scheduled to return to 6.2% in 2012
 - Change effective January 1, 2012

Conclusion

- None of the rate changes will require any action on your part
- All rate changes will be programmed into GHRS

2011 Legislative Changes to Retirement Benefits

Faculty

George Frost
Retirement Systems of Alabama

Act 2011-27: Elimination of DROP

- Effective date was March 24, 2011
- Changed the interest for members post-DROP (whichever is less):
 - 4% interest
 - Investment return from previous FY
- Nothing changes for members currently in DROP

Completion of DROP Participation

- Completion of contractual obligation
 - Minimum of 3-5 years participation
- Will receive:
 - Accumulated monthly retirement allowance, contributions, plus interest

Completion of DROP Participation

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

Completion of DROP Participation

- Voluntary termination of DROP
 - Member contributions made to ERS during the DROP participation period plus applicable interest
 - Interest attributable to the monthly retirement allowance contributions

Completion of DROP Participation

- Involuntary Termination, Disability, or Involuntary Transfer of Spouse
 - Less than three (3) years of participation in DROP
 - No penalty on DROP distribution

Completion of DROP Participation

- Accumulated monthly retirement allowance, contributions, plus interest
- Member contributions made to ERS during the DROP participation period plus applicable interest

Act 2011-676: Change in Contribution Rates

- Signed June 15, 2011
- Effective date October 1, 2011
 - Begins Sept. 1, 2011, pay period

5%	➔	7.25%
6%	➔	8.25%
State's Rate		
11.94%	➔	9.42%

Act 2011-676: Change in Contribution Rates

- Effective date October 1, 2012
 - Begins with the pay period on September 1, 2012

5%	➔	7.25%	➔	7.50%
6%	➔	8.25%	➔	8.50%

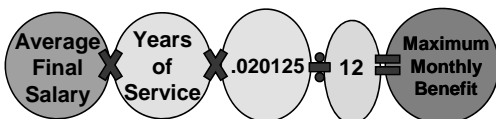
Act 2011-676: Change in Contribution Rates

- State Troopers, ABC Law Enforcement, and Special Investigators with the Attorney General's Office are not affected

Retirement Eligibility

- Age 60 with at least 10 years of service or 25 years of service at any age
- Can use sick leave to be eligible for a service retirement
- Must apply at least 30-90 days prior to the effective date of retirement, which must be the first day of any given month

Retirement Formula



Senate Bill 309 and its Effect on the State Employees' Health Insurance Plan

Faculty

Tonya Campbell
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State Employees' Insurance Board

What Is Senate Bill 309?

- SB309 (Act 2011-698) was signed by Governor Bentley on June 14, 2011
- Like the retiree sliding scale implemented in 2005 that bases premiums on years of service, SB309 provides incentives to work longer

What Is Senate Bill 309?

- In addition, this change will assist in equal funding for non-Medicare retirees and active employees by 2016

Base Retiree Premiums Effective January 1, 2012

- Base premium for a non-Medicare eligible retiree with exactly 25 years of state service:
 - \$246* Individual Coverage
 - \$478* Family Coverage

Base Retiree Premiums Effective January 1, 2012

- Base premium decreases when member or eligible dependents become Medicare eligible
 - \$40* Individual Coverage
 - \$161* Family Coverage
- Applies only if all dependents are Medicare eligible

Base Retiree Premiums Effective January 1, 2012

- * Premiums may be reduced by \$40 for non-tobacco users

Retirees with More than 25 Years of Service

- Regardless of retirement date, retirees covered under the State Employees' Health Insurance Plan (SEHIP) will receive a 2% premium discount for each year of service over 25

Retirees with More than 25 Years of Service

- Years of service should be creditable as participating in the SEHIP
 - Participation in the Employees' Retirement System (ERS) does not necessarily constitute the total years of service allowed under the SEHIP sliding scale
- SB309 did not affect or change this premium discount

Retirees with Less than 25 Years of Service

- SEHIP members who retire on or after January 1, 2012 will see an increase of 4% in their premium for every year of service under 25
- SB309 increased this percentage by 2% for each year under 25

Premiums Based on Medicare Eligibility

- Beginning January 1, 2012, SEHIP members will contribute an additional 1% for each year they are away from Medicare eligibility
- This percentage increase will cease when the retiree reaches Medicare eligibility

DROP Participants

- DROP participants will be exempt from SB309 requirements unless they:
 - Voluntarily terminate participation in DROP within the first three years
 - They do not retire at the end of the DROP participation period

Federal Poverty Level Discount

- Effective October 1, 2011, the federal poverty level discount will increase from 200% to 300%

October 1, 2011-2012 Federal Poverty Level Discount					
	100%	150%	200%	250%	300%
Family Size	50%	40%	30%	20%	10%
1	10,830	16,245	21,660	27,075	32,490
2	14,570	21,855	29,140	36,425	43,710
3	18,310	27,465	36,620	45,775	54,930
4	22,050	33,075	44,100	55,125	66,150


Effects on Employee's Who Retire on or after January 1, 2012

- Increase in premium contribution from 2% to 4% for each year of service under 25
- 1% increase in premiums for each year they are away from Medicare eligibility
- Increase for those eligible for Federal Poverty Level discount from 200% to 300%

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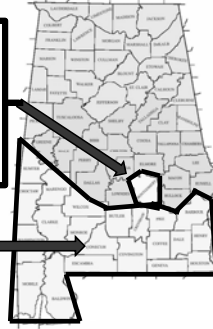
A map of Alabama with county boundaries. Two thick black arrows point from the text to the map: one points to the northern region and the other points to the western region.

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A map of Alabama with county boundaries. Three thick black arrows point from the text to the map: one points to the northern region, one points to the central region, and one points to the southern region.

Thinking About Retirement?

- Remember:
 - The more years you work, the more in retirement income you'll receive
 - In most cases this will more than offset any increase in your SEHIP premium because of SB309

Thinking About Retirement?

- SEHIP premiums decrease substantially for every year you are closer to Medicare eligibility
 - Typically age 65

Thinking About Retirement?

- If you have more than 25 years of creditable coverage in the SEHIP, you will receive a 2% discount for every year over 25 years
- Retirees are not eligible for longevity
- Health insurance premiums will be post-taxed at retirement

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