Employees Who Are Eligible to Retire: Legislative Impact on Benefits

Satellite Conference and Live Webcast
Thursday, August 25, 2011
9:00 a.m. – 12:00 p.m. Central Time

Produced by the Alabama Department of Public Health
Video Communications and Distance Learning Division

Payroll Update

Faculty
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State Comptroller
Alabama Department of Finance

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

Faculty
George Frost
Retirement Systems of Alabama

2011 Legislative Changes to Retirement Benefits

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

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<tr>
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<th>5%</th>
<th>6%</th>
<th>State's Rate</th>
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<tr>
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<td>7.25%</td>
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Act 2011-676: Change in Contribution Rates
- Effective date October 1, 2012
  - Begins with the pay period on September 1, 2012

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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

- Average Final Salary
- Years of Service
- 0.020125
- 12
- Maximum Monthly Benefit

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

Faculty

Tonya Campbell
Marketing Director
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%

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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<th>Family Size</th>
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<td>1</td>
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<td>14,570</td>
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<td>18,310</td>
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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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