AN ACT

Relating to the public employees' and teachers' defined benefit retirement plans; relating to the public employees' and teachers' defined contribution retirement plans; relating to the judicial retirement system; relating to the health reimbursement arrangement plan for certain teachers and public employees; relating to the supplemental employee benefit program; relating to the public employees' deferred compensation program; relating to group insurance for public employees and retirees; making conforming amendments; and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

THE ACT FOLLOWS ON PAGE 1
AN ACT

Relating to the public employees' and teachers' defined benefit retirement plans; relating to the public employees' and teachers' defined contribution retirement plans; relating to the judicial retirement system; relating to the health reimbursement arrangement plan for certain teachers and public employees; relating to the supplemental employee benefit program; relating to the public employees' deferred compensation program; relating to group insurance for public employees and retirees; making conforming amendments; and providing for an effective date.

*Section 1. AS 14.25.065(b) is amended to read:

(b) The contributions of employers under AS 14.25.070 must be transmitted to the plan for deposit in the retirement fund and the Alaska retiree health care trust at the close of each pay period. If the contributions are not submitted within the prescribed time limit [15 DAYS OF THE CLOSE OF EACH PAYROLL PERIOD],
interest must be assessed on the outstanding contributions at one and one-half times the most recent actuarially determined rate of earnings for the plan from the date that contributions were originally due. [IN ADDITION, THE AMOUNT OF THE CONTRIBUTIONS AND INTEREST MAY BE DEDUCTED BY THE DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT FROM THE STATE FUNDS DUE THE SCHOOL DISTRICT AND THE AMOUNT SO DEDUCTED TRANSMITTED TO THE PLAN FOR DEPOSIT IN THE RETIREMENT FUND.] Amounts due from an employer [THE UNIVERSITY OF ALASKA] and interest as prescribed in this section may be claimed [DEDUCTED] by the administrator [COMMISSIONER OF ADMINISTRATION] from any agency of the state or political subdivision that has in its possession funds of the employer or that is authorized to disburse funds to the employer that are not restricted by statute or appropriation to a specific purpose. The amount claimed shall be certified by the administrator as sufficient to pay the contributions and interest due from the employer. The amount claimed shall be submitted to the administrator for deposit in the retirement fund and the Alaska retiree health care trust [STATE FUNDS DUE THE UNIVERSITY OF ALASKA AND THE AMOUNT DEDUCTED TRANSMITTED TO THE ADMINISTRATOR FOR DEPOSIT IN THE RETIREMENT FUND].

* Sec. 2. AS 14.25.070(a) is amended to read:

(a) An employer shall make contributions to the plan in accordance with this section and as approved by the board in an amount sufficient, after subtracting member contributions, to provide the benefits of AS 14.25.009 - 14.25.220. The amount shall be calculated by applying the sum of the employer normal cost rate and the past service rate to the sum total of the base salaries paid to members in the system [AN EMPLOYER CONTRIBUTION RATE, CERTIFIED BY THE BOARD, AGAINST THE SUM TOTAL OF THE BASE SALARIES PAID TO MEMBERS], including any adjustments to contributions required by AS 14.25.173(a). The employer shall remit this amount to the administrator in accordance with AS 14.25.065.

* Sec. 3. AS 14.25.070 is amended by adding new subsections to read:
(d) Employer contributions shall be separately computed for benefits provided by AS 14.25.168 and shall be deposited in the Alaska retiree health care trust established under AS 39.30.097(a).

(e) In (a) of this section,

(1) "employer normal cost rate" means the percentage of compensation of all active members in the system that, when combined with the member contribution rate of active members in the plan, is sufficient to provide the benefits that are expected to be credited with respect to service during the year beginning after the last valuation date; this percentage is uniformly determined for all employers and is applicable to each employer;

(2) "past service rate" means the percentage of compensation of all active members in the system necessary to provide the annual amount required to amortize the unfunded obligations of the employers for benefits earned by members in the plan as of the date of the last actuarial valuation over a period not to exceed the maximum period allowed by generally accepted accounting principles of the Governmental Accounting Standards Board; this percentage is uniformly determined for all employers and is applicable to each employer.

* Sec. 4. AS 14.25.075(f) is amended to read:

(f) The administrator may accept rollover contributions from a member, and direct transfers as described in this subsection, for the purchase, in whole or in part, of forfeited credited service under this section for the reinstatement, in whole or in part, of forfeited credited service under AS 14.25.062. Contributions made under this subsection may not be applied to purchase service being paid under (b) of this section. A rollover contribution or transfer as described in this subsection shall be treated as employer contributions for the purpose of determining tax treatment under the Internal Revenue Code and may be made by any one or a combination of the following methods:

(1) subject to the limitations prescribed in 26 U.S.C. 402(c), accepting eligible rollover distributions directly from one or more eligible retirement plans as defined by 26 U.S.C. 402(c)(8)(B) [PROGRAMS OF ANOTHER EMPLOYER THAT ARE QUALIFIED UNDER 26 U.S.C. 401(a) OR ACCEPTING
ROLLOVERS DIRECTLY FROM A MEMBER];

(2) [SUBJECT TO THE LIMITATIONS PRESCRIBED IN 26 U.S.C. 408(d)(3)(A)(ii), ACCEPTING FROM A MEMBER CONDUIT ROLLOVER CONTRIBUTIONS THAT ARE RECEIVED BY THE MEMBER FROM ONE OR MORE CONDUIT ROLLOVER INDIVIDUAL RETIREMENT ACCOUNTS PREVIOUSLY ESTABLISHED BY THE MEMBER;

(3)] subject to the limitations prescribed in 26 U.S.C. 403(b)(13), accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the member, on or after January 1, 2002, from a tax sheltered annuity described in 26 U.S.C. 403(b);

(3) [(4)] subject to the limitations prescribed in 26 U.S.C. 457(e)(17), accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the member, on or after January 1, 2002, from an eligible deferred compensation plan of a tax-exempt organization or a state or local government described in 26 U.S.C. 457(b);

(4) [(5)] accepting direct trustee-to-trustee transfer from an account established for the benefit of the member in AS 39.30.150 - 39.30.180 (Alaska Supplemental Annuity Plan).

* Sec. 5. AS 14.25.075(f), as amended by sec. 4 of this Act, is amended to read:

(f) The administrator may accept rollover contributions from a member [, AND DIRECT TRANSFERS AS DESCRIBED IN THIS SUBSECTION, FOR THE PURCHASE, IN WHOLE OR IN PART, OF FORFEITED CREDITED SERVICE UNDER THIS SECTION FOR THE REINSTATEMENT, IN WHOLE OR IN PART, OF FORFEITED CREDITED SERVICE UNDER AS 14.25.062]. Contributions made under this subsection may not be applied to purchase service being paid under (b) of this section. A rollover contribution [OR TRANSFER] as described in this subsection shall be treated as employer contributions for the purpose of determining tax treatment under the Internal Revenue Code and may be made by any one or a combination of the following methods:

(1) subject to the limitations prescribed in 26 U.S.C. 402(c), accepting eligible rollover distributions directly from one or more eligible retirement plans as defined by 26 U.S.C. 402(c)(8)(B);
(2) subject to the limitations prescribed in 26 U.S.C. 403(b)(13), accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the member, on or after January 1, 2002, from a tax sheltered annuity described in 26 U.S.C. 403(b);

(3) subject to the limitations prescribed in 26 U.S.C. 457(e)(17), accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the member, on or after January 1, 2002, from an eligible deferred compensation plan of a tax-exempt organization or a state or local government described in 26 U.S.C. 457(b);

(4) accepting direct trustee-to-trustee transfer from an account established for the benefit of the member in AS 39.30.150 - 39.30.180 (Alaska Supplemental Annuity Plan).

* Sec. 6. AS 14.25.125(c) is amended to read:

   (c) Membership service for which contributions were refunded is not creditable under this section [UNLESS THE REFUNDED CONTRIBUTIONS HAVE BEEN REPAID. FOR PURPOSES OF THIS SECTION, A MEMBER OR FORMER MEMBER DOES NOT HAVE TO BE REEMPLOYED UNDER THIS PLAN IN ORDER TO REPAY REFUNDED CONTRIBUTIONS. COMPOUND INTEREST AT THE RATE PRESCRIBED BY REGULATION MUST BE ADDED TO THE REINSTATEMENT INDEBTEDNESS FROM THE DATE OF THE REFUND TO THE DATE OF REPAYMENT].

* Sec. 7. AS 14.25.163(b) is amended to read:

   (b) Except as provided by AS 14.25.075(f) [AS 14.25.075(f)(5)], the plan does not accept contributions of eligible rollover distributions.

* Sec. 8. AS 14.25.163(c)(2) is amended to read:

   (2) "distributee" means a member or a beneficiary who is the surviving spouse of the member or an alternate payee;

* Sec. 9. AS 14.25.163(c)(3) is amended to read:

   (3) "eligible retirement plan"

     (A) [(A)] means

     (A) [(i)] an individual retirement account described in 26 U.S.C. 408(a);
(B) [(ii)] an individual retirement annuity defined in 26 U.S.C. 408(b);  
(C) [(iii)] an annuity plan described in 26 U.S.C. 403(a);  
(D) [(iv)] a qualified trust described in 26 U.S.C. 401(a);  
(E) [(v)] on and after January 1, 2002, an annuity plan described in 26 U.S.C. 403(b);  
(F) [OR (vi)] on or after January 1, 2002, a governmental plan described in 26 U.S.C. 457(b); or  
(G) on or after January 1, 2008, a Roth IRA described in 26 U.S.C. 408A [AND  
(B) NOTWITHSTANDING (A) OF THIS PARAGRAPH, MEANS, WITH RESPECT TO DISTRIBUTIONS MADE BEFORE JANUARY 1, 2002, AN INDIVIDUAL RETIREMENT ACCOUNT OR AN INDIVIDUAL RETIREMENT ANNUITY ACCOUNT DESCRIBED OR DEFINED IN 26 U.S.C. 408 IN THE CASE OF AN ELIGIBLE ROLLOVER DISTRIBUTION TO A BENEFICIARY WHO IS THE SURVIVING SPOUSE OF A MEMBER];  
* Sec. 10. AS 14.25.163(c)(4) is amended to read:  
(4) "eligible rollover distribution" means a distribution of all or part of a total account to a distributee, except for  
(A) a distribution that is one of a series of substantially equal installments payable not less frequently than annually over the life expectancy of the distributee or the joint and last survivor life expectancy of the distributee and the distributee's designated beneficiary, as defined in 26 U.S.C. 401(a)(9);  
(B) a distribution that is one of a series of substantially equal installments payable not less frequently than annually over a specified period of 10 years or more;  
(C) a distribution that is required under 26 U.S.C. 401(a)(9);  
(D) the portion of any distribution that is not includable in gross income; however, a portion under this subparagraph may be transferred only to an individual retirement account or annuity described
in 26 U.S.C. 408(a) or (b), to a qualified plan described in 26 U.S.C. 401(a) or 403(a), or to an annuity contract described in 26 U.S.C. 403(b), that agrees to separately account for amounts transferred, including separately accounting for the portion of the distribution that is includable in gross income and the portion of the distribution that is not includable in gross income; and

(E) [A DISTRIBUTION MADE ON OR AFTER JANUARY 1, 2002, THAT IS ON ACCOUNT OF HARDSHIP; AND

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

* Sec. 11. AS 14.25.168 is amended by adding a new subsection to read:

(f) On and after July 1, 2007, benefits under this section shall be provided in part by the Alaska retiree health care trust established under AS 39.30.097(a).

* Sec. 12. AS 14.25.181(b) is amended to read:

(b) If, upon termination of the plan, all liabilities are satisfied, any excess assets [ARISING FROM ERRONEOUS ACTUARIAL COMPUTATION] shall revert to the employers as determined by the administrator subject to the approval of the termination by the Internal Revenue Service [ON A PRO RATA BASIS].

* Sec. 13. AS 14.25.181 is amended by adding new subsections to read:

(c) The administrator shall use forfeitures that arise for any reason, including from termination of employment or death, to reduce employer contributions. Forfeitures may not be applied to increase the benefits of any member.

(d) The administrator shall determine the amount of any benefit that is determined on the basis of actuarial tables using assumptions approved by the commissioner of administration. The amount of benefits is not subject to employer discretion.

(e) Employee contributions paid to, and retirement benefits paid from, the plan may not exceed the annual limits on contributions and benefits, respectively, allowed by 26 U.S.C. 415. Notwithstanding any contrary provision of law, the administrator may modify a request by a member to make a contribution to the plan if the amount of the contribution would exceed the limits provided in 26 U.S.C. 415 by using the
following methods:

(1) if the law requires a lump sum payment for the purchase of service credit, the administrator may establish a periodic payment plan for the member to avoid a contribution in excess of the limits under 26 U.S.C. 415(c) or (n);

(2) if a periodic payment plan under (1) of this subsection will not avoid a contribution in excess of the limits imposed by 26 U.S.C. 415(c), the administrator may either reduce the member's contribution to an amount within the limits of that section or refuse the member's contribution.

* Sec. 14. AS 14.25.220(10) is amended to read:

(10) "compensation" means the total remuneration paid under contract to a member for services rendered during a school year, including cost-of-living differentials, payments for leave that is actually used by the member, the amount by which the member's wages are reduced under AS 39.30.150(c), an amount that is contributed by the employer under a salary reduction agreement and that is not includable in the gross income of the employee under 26 U.S.C. 125 or 132(f)(4), and the amount deferred under an employer-sponsored deferred compensation plan or the tax shelter annuity plan approved by the Department of Education and Early Development, but does not include retirement benefits, welfare benefits, per diem, expense allowances, workers' compensation payments, or payments for leave not used by the member, whether those leave payments are scheduled payments, lump-sum payments, donations, or cash-ins; for purposes of AS 14.25.050, compensation paid includes any payment made after June 30 of a school year for services rendered before the end of the school year;

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

(16) "employer" means a public school district, the Board of Regents of the University of Alaska, the Department of Education and Early Development, [THE NATIONAL EDUCATION ASSOCIATION OF ALASKA,] the Regional Resource Centers, or the state legislature with respect to a state legislator who elects membership under AS 14.25.040(b);

* Sec. 16. AS 14.25.310 is amended to read:

AS 14.25.310 - 14.25.590 apply only to teachers who first become members on or after July 1, 2006, to members who are employed by employers that do not participate in the defined benefit retirement plan established under AS 14.25.009 - 14.25.220, or to members who transfer into the defined contribution retirement plan under AS 14.25.540.

* Sec. 17. AS 14.25.310, as amended by sec. 16 of this Act, is amended to read:


* Sec. 18. AS 14.25.320(c) is amended to read:

(c) The defined contribution retirement plan is intended to qualify under 26 U.S.C. 401(a),[AND] 414(d),[AND] 414(k)(Internal Revenue Code) as a qualified retirement plan established and maintained by the state for its employees and for the employees of school districts and regional educational attendance areas in the state. Benefits under AS 14.25.480 are not provided by the defined contribution retirement plan.

* Sec. 19. AS 14.25.350(b) is amended to read:

(b) An employer shall also contribute an amount equal to a percentage, as approved [CERTIFIED] by the board, of each member's compensation from July 1 to the following June 30 to pay for retiree major medical insurance. This contribution shall be paid into the Alaska retiree health care trust [GROUP HEALTH AND LIFE BENEFITS FUND] established by the commissioner of administration under AS 39.30.097(b)[AS 39.30.095] and shall be accounted for in accordance with regulations adopted[ESTABLISHED] by the commissioner.

* Sec. 20. AS 14.25.350 is amended by adding a new subsection to read:

(e) An employer shall make annual contributions to a trust account in the plan, applied as a percentage of each member's compensation from July 1 to the following June 30, in an amount determined by the board to be actuarially required to fully fund
the cost of providing occupational disability and occupational death benefits under

* Sec. 21. AS 14.25.360(d)(3) is amended to read:

(3) "eligible retirement plan" means
(A) an [A CONDUIT] individual retirement account described
in 26 U.S.C. 408(d)(3)(A);
(B) an annuity plan described in 26 U.S.C. 403(a);
(C) a qualified trust described in 26 U.S.C. 401(a);
(D) an annuity plan described in 26 U.S.C. 403(b); [OR]
(E) a governmental plan described in 26 U.S.C. 457(b);
(F) an individual retirement annuity described in 26 U.S.C.
408(b); or
(G) on or after January 1, 2008, a Roth IRA described in 26
U.S.C. 408A;

* Sec. 22. AS 14.25.360(d)(4) is amended to read:

(4) "eligible rollover distribution" means a distribution of all or part of
a total account to a distributee, except for
(A) a distribution that is one of a series of substantially equal
installments payable not less frequently than annually over the life expectancy
of the distributee or the joint and last survivor life expectancy of the distributee
and the distributee's designated beneficiary, as defined in 26 U.S.C. 401(a)(9);
(B) a distribution that is one of a series of substantially equal
installments payable not less frequently than annually over a specified period
of 10 years or more;
(C) a distribution that is required under 26 U.S.C. 401(a)(9);
(D) the portion of any distribution that is not includable in
gross income; however, a portion under this subparagraph may be
transferred only to an individual retirement account or annuity described
in 26 U.S.C. 408(a) or (b), to a qualified plan described in 26 U.S.C. 401(a)
or 403(a), or to an annuity contract described in 26 U.S.C. 403(b), that
agrees to separately account for amounts transferred, including separately
accounting for the portion of the distribution that is includable in gross income and the portion of the distribution that is not includable in gross income; and

(E) [A DISTRIBUTION THAT IS ON ACCOUNT OF HARDSHIP; AND

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

* Sec. 23. AS 14.25.370 is amended to read:

**Sec. 14.25.370. Transmittal of contributions.** All contributions deducted in accordance with AS 14.25.310 - 14.25.590 shall be transmitted to the plan for deposit in the appropriate account or trusts [TRUST FUND] as soon as administratively feasible, but in no event later than 15 days following the close of the payroll period, with the final contributions due for any school year transmitted no later than July 15.

* Sec. 24. AS 14.25.370 is amended by adding new subsections to read:

(b) If contributions are not transmitted within the prescribed time limit, interest shall be assessed on the outstanding contributions at the rate established under AS 14.25.065 from the date that contributions were originally due. Amounts due from an employer and interest as prescribed in this subsection may be claimed by the administrator from any agency of the state or political subdivision that has in its possession funds of the employer or that is authorized to disburse funds to the employer that are not restricted by statute or appropriation to a specific purpose. The amount claimed shall be certified by the administrator as sufficient to pay the contributions and interest due from the employer. The amount claimed shall be submitted to the administrator for deposit in the appropriate account or trusts.

(c) An employer is responsible for administrative fees, investment fees, and investment losses charged to accounts established under AS 14.25.340 resulting from contribution adjustments because the employer enrolled a member in the plan before the member was eligible for membership. Contributions made by an employee shall be returned to the employer by reducing future employee contributions due. Contributions, net of fees and investment losses, made by an employer shall be used to
reduce future employer contributions due.

* Sec. 25. AS 14.25.380 is amended to read:

Sec. 14.25.380. Limitations on contributions and benefits. Notwithstanding any other provisions of this plan, the annual additions to each member's individual account under this plan and under all defined contribution plans of the employer required to be aggregated with the contributions from this plan under the provisions of 26 U.S.C. 415 may not exceed, for any limitation year, the amount permitted under 26 U.S.C. 415(c) [26 U.S.C. 415] at any time. If the amount of a member's individual account [DEFINED CONTRIBUTION PLAN] contributions exceeds the limitation of 26 U.S.C. 415(c) for any limitation year, the administrator shall take any necessary remedial action to correct an excess contribution. A fixed benefit provided under this plan may not exceed, for or during a limitation year, the amount permitted under 26 U.S.C. 415(b). If a fixed benefit provided under this plan exceeds, for or during a limitation year, the amount permitted under 26 U.S.C. 415(b), the administrator shall take remedial action necessary to comply with the limits on the benefit amount in 26 U.S.C. 415(b). The provisions of 26 U.S.C. 415, and the regulations adopted under that statute, as applied to qualified [DEFINED CONTRIBUTION] plans of governmental employers [EMPLOYEES] are incorporated as part of the terms and conditions of the plan.

* Sec. 26. AS 14.25.485(b) is amended to read:

(b) The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment. The last payment shall be for the first month in which the disabled member

(1) dies;
(2) recovers from the disability;
(3) fails to meet the requirements under (f), [OR] (h), or (j) of this section; or
(4) reaches normal retirement age.
Sec. 27. AS 14.25.485(d) is amended to read:

(d) The monthly amount of an occupational disability benefit is 40 percent of the disabled member's gross monthly compensation at the time of termination due to disability. Notwithstanding AS 14.25.390(b), at the time a member is appointed to disability, the member becomes fully vested in the employer contributions made under AS 14.25.350(a). A disabled member is fully vested in the contributions to the member's individual account made under this subsection. A member is not entitled to elect distributions from the member's individual contribution account under AS 14.25.410 while the member is receiving disability benefits under this section. While a member is receiving disability benefits, based on the disabled member's gross monthly compensation at the time of termination due to disability, the employer shall make contributions to the

   (1) member's individual account under AS 14.25.340 on behalf of the member, without deduction from the member's disability payments; and

   (2) appropriate accounts and funds on behalf of the member under AS 14.25.350.

Sec. 28. AS 14.25.485(g) is amended to read:

(g) A disabled member's occupational disability benefit terminates the last day of the month in which [WHEN] the disabled member first qualifies [ATTAINS ELIGIBILITY] for normal retirement. At that time, the member's retirement benefit shall be determined under the provisions of AS 14.25.420 - 14.25.440, 14.25.470, and 14.25.480. A member whose occupational disability benefit terminates under this subsection [RECEIVING DISABILITY BENEFITS UP UNTIL ELIGIBILITY FOR RETIREMENT] shall be considered to have retired directly from the plan.

Sec. 29. AS 14.25.485(i) is amended to read:

(i) Upon the death of a disabled member who is receiving or is entitled to receive an occupational disability benefit, the administrator shall pay the surviving spouse a surviving spouse's pension, equal to 40 percent of the member's monthly compensation at the time of termination of employment because of occupational disability. If there is no surviving spouse, the administrator shall pay the survivor's pension in equal parts to the dependent children of the member. While the monthly
survivor's pension is being paid, the survivor is not entitled to elect distributions from the member's individual contribution account under AS 14.25.410. The first payment of the surviving spouse's pension or of a dependent child's pension shall accrue from the first day of the month following the member's death and is payable the last day of the month. The last payment shall be made the last day of [FOR] the last month in which there is an eligible surviving spouse or dependent child, or the last day of the month in which the member would have first qualified for normal retirement if the member had survived, whichever day is sooner. A retirement benefit shall be determined under the provisions of AS 14.25.420 - 14.25.440, 14.25.470, and 14.25.480 based on the date the member would have first qualified for normal retirement [OF THE MEMBER WOULD HAVE OCCURRED] if the member had survived. In addition to the payment of the member's individual account, the surviving spouse or, if there is no surviving spouse, the surviving dependent children of the member, shall receive an additional benefit in an amount equal to the accumulated contributions that would have been made to the deceased member's individual account under AS 14.25.340(a) and 14.25.350(a), based on the deceased member's gross monthly compensation at the time of occupational disability, from the time of the member's death to the date the member would have first qualified for normal retirement if the member had survived. Earnings shall be allocated to the additional benefit calculated under this subsection based on the actual rate of return, net of expenses, of the trust account established under AS 14.25.350(e) over the period that the contributions would have been made. This additional amount and allocated earnings shall be paid in the same manner as determined for the member's individual account under AS 14.25.420 - 14.25.460 to the extent permitted by the Internal Revenue Service. For the purpose of determining eligibility of a survivor who is receiving a benefit under this subsection for medical benefits under AS 14.25.470 and 14.25.480, a [LIVED, THE RETIREMENT BENEFIT SHALL BE DETERMINED UNDER THE PROVISIONS OF AS 14.25.420 - 14.25.440, 14.25.470, AND 14.25.480. A] member who died while receiving disability benefits shall be considered to have retired directly from the plan on the date the member would have first
qualified for normal retirement [OF THE MEMBER WOULD HAVE OCCURRED] if the member had survived. The period during which the member was eligible for a disability benefit and the period during which a survivor's pension is paid to a survivor under this subsection each constitute membership service for the purposes of determining eligibility for medical benefits under AS 14.25.310 - 14.25.590 and AS 39.30.300 - 39.30.495 [LIVED].

* Sec. 30. AS 14.25.485(j) is amended to read:

(j) In this section, "occupational disability" means a physical or mental condition that the administrator determines presumably permanently prevents an employee from satisfactorily performing the employee's usual duties or the duties of another comparable position or job available to the employee and for which the employee is qualified by training or education; however, the proximate cause of the condition must be a bodily injury sustained, or a hazard undergone, while in the performance and within the scope of the employee's duties and not the proximate result of the wilful negligence of the employee [HAS THE MEANING GIVEN IN AS 39.35.680].

* Sec. 31. AS 14.25.485 is amended by adding a new subsection to read:

(k) While a survivor under (i) of this section is receiving a survivor's pension, the employer of the deceased member shall make contributions with respect to the survivor based on the deceased member's gross monthly compensation at the time of termination due to disability

(1) that would have been paid to the member's individual account under AS 14.25.340 and 14.25.350(a) to the trust account established under AS 14.25.350(e), without deduction from the survivor's pension; and

(2) to the appropriate accounts and funds under AS 14.25.350(b) - (e).

* Sec. 32. AS 14.25 is amended by adding a new section to read:

Sec. 14.25.486. Disability benefit adjustment. (a) Once each year, the administrator shall increase disability benefits. The amount of the increase is a percentage of the current disability benefit equal to the lesser of 75 percent of the increase in the cost of living in the preceding calendar year or nine percent.

(b) If a disabled member was not receiving a benefit during the entire
preceding calendar year, the increase in the benefit under this section shall be adjusted by multiplying it by a fraction, the numerator of which is the number of months for which the benefit was received in the preceding calendar year and the denominator of which is 12.

(c) An increase in benefit payments under this section is effective July 1 of each year and is based on the percentage increase in the Consumer Price Index for urban wage earners and clerical workers for Anchorage, Alaska, during the previous calendar year, as determined by the United States Department of Labor, Bureau of Labor Statistics.

(d) Benefit adjustments under this section shall terminate the last day of the month following the date on which a disabled member is no longer receiving a disability benefit under AS 14.25.485.

* Sec. 33. AS 14.25.487(b) is amended to read:

(b) The first payment of the surviving spouse's pension or of a dependent child's pension shall be made for the month following the month in which the member dies. Payments [, AND PAYMENT] shall cease on the last day of the month in which there is no longer an eligible spouse or eligible dependent child, or the last day of the month following the earliest date [TO BE MADE BEGINNING WITH THE MONTH IN WHICH] the member would have first qualified for normal retirement if the member had survived, whichever day is sooner.

* Sec. 34. AS 14.25.487(c) is amended to read:

(c) The monthly survivor's pension in (b) of this section for survivors of members is 40 percent of the member's monthly compensation in the month in which the member dies. While the monthly survivor's pension is being paid, the survivor is not entitled to elect distributions from the member's individual contribution account under AS 14.25.410, except as required by AS 14.25.440. While the monthly survivor's pension is being paid, the employer shall make contributions with respect to [ON BEHALF OF] the member's surviving spouse and member's surviving dependent children [BENEFICIARIES] based on the deceased member's gross monthly compensation at the time of occupational death

(1) that would have been paid to the member's individual account
under AS 14.25.340 and 14.25.350(a), to the trust account established under AS 14.25.350(e), without deduction from the survivor's pension; and

(2) to the appropriate accounts and funds [ON BEHALF OF THE MEMBER] under AS 14.25.350(b) - (e) [AS 14.25.350].

* Sec. 35. AS 14.25.487(e) is amended to read:

(e) On the date the member would have first qualified for normal retirement [OF THE MEMBER WOULD HAVE OCCURRED] if the member had survived [LIVED], the retirement benefit shall be determined under the provisions of AS 14.25.420 - 14.25.440, 14.25.470, and 14.25.480. In addition to payment of the member's individual account, the surviving spouse or, if there is no surviving spouse, the surviving dependent children of the member, shall receive an additional benefit in an amount equal to the accumulated contributions that would have been made to the deceased member's individual account under AS 14.25.340(a) and 14.25.350(a), based on the deceased member's gross monthly compensation at the time of the member's occupational death, from the time of the member's death to the date the member would have first qualified for normal retirement if the member had survived. Earnings shall be allocated to the additional benefit calculated under this subsection based on the actual rate of return, net of expenses, of the trust account established under AS 14.25.350(e) over the period that the contributions would have been made. This additional amount and allocated earnings shall be paid in the same manner as determined for the member's individual account under AS 14.25.420 - 14.25.460 to the extent permitted by the Internal Revenue Service. A member who died and whose survivors receive occupational death benefits under this section shall be considered to have retired directly from the plan on the date the [NORMAL RETIREMENT OF THE] member would have first qualified for normal retirement [OCCURRED] if the member had survived. The period during which a survivor's pension is paid under this subsection constitutes membership service for the purposes of determining vesting in employer contributions under AS 14.25.390(b) and eligibility for medical benefits under AS 14.25.310 - 14.25.590 and AS 39.30.300 - 39.30.495 [LIVED].
*Sec. 36.* AS 14.25 is amended by adding new sections to read:

**Sec. 14.25.488. Survivors' pension adjustment.** (a) Once each year, the administrator shall increase payments to a person 60 years of age or older receiving a survivor's pension under AS 14.25.485(i) or 14.25.487(c) and to a person who has received a survivor's pension under AS 14.25.485(i) or 14.25.487(c) for at least eight years, who is not otherwise eligible for an increase under this section.

(b) The amount of the increase is a percentage of the current survivor's pension equal to the lesser of 50 percent of the increase in the cost of living in the preceding calendar year or six percent.

(c) If a survivor was not receiving a pension during the entire preceding calendar year, the increase in the survivor's pension under this section shall be adjusted by multiplying it by a fraction, the numerator of which is the number of months for which the pension was received in the preceding calendar year and the denominator of which is 12.

(d) The administrator shall increase the initial survivor's pension paid to a survivor of a member who died while receiving disability benefits by a percentage equal to the total cumulative percentage that has been applied to the member's disability benefit under AS 14.25.486.

(e) An increase in benefit payments under this section is effective July 1 of each year and is based on the percentage increase in the Consumer Price Index for urban wage earners and clerical workers for Anchorage, Alaska, during the previous calendar year, as determined by the United States Department of Labor, Bureau of Labor Statistics.

(f) Pension adjustments under this section shall terminate the last day of the month following the date on which a survivor is no longer receiving a survivor's pension under AS 14.25.485(i) or 14.25.487(c).

**Sec. 14.25.489. Premiums for retiree major medical insurance coverage upon termination of disability benefits or survivor's pension.** The premium for retiree major medical insurance coverage payable by a member whose disability benefit is terminated under AS 14.25.485(g) or by an eligible survivor whose survivor pension is terminated under AS 14.25.485(i) or 14.25.487(e) when the member would...
have been eligible for normal retirement if the member had survived shall be determined under AS 14.25.480(g)(2) as if the member or survivor were eligible for Medicare.

* Sec. 37. AS 14.25.500 is amended by adding new subsections to read:

(d) The administrator shall use forfeitures in the fixed benefit account of the plan that arise for any reason, including from termination of employment or death, to reduce employer contributions. Forfeitures may not be applied to increase the benefits of any member.

(e) The administrator shall determine the amount of any fixed benefit that is determined on the basis of actuarial tables using assumptions approved by the commissioner. The amount of benefits is not subject to employer discretion.

* Sec. 38. AS 14.25.510 is amended to read:

Sec. 14.25.510. Nonguarantee of returns, rates, or benefit amounts. The plan created by AS 14.25.310 - 14.25.590 is, with respect to individual accounts, treated as a defined contribution plan, and not a defined benefit plan. The amount of money in the individual account of a participant depends on the amount of contributions and the rate of return from investments of the account that varies over time. If benefits are paid in the form of an annuity, the benefit amount payable is dependent on the amount of money in the account and the interest rates applied and service fees charged by the annuity payor at the time the annuity is purchased from the carrier and benefits are first paid. Nothing in this plan guarantees a participant

(1) a rate of return or interest rate other than that actually earned by the account of the participant, less applicable administrative expenses; or

(2) an annuity based on interest rates or service charges other than interest rates available from and service charges by the annuity payor in effect at the time the annuity is paid.

* Sec. 39. AS 14.25.540(c) is amended to read:

(c) Each eligible member who elects to participate in the defined contribution retirement plan shall have transferred to a new account the member contribution account balance held in trust for the member under the defined benefit retirement plan of the teachers' retirement system. A matching employer contribution shall be made on
behalf of that employee to the new account. The employer shall make the matching
contribution from funds other than the trust funds of the defined benefit retirement
plan. The amount of the matching employer contribution is subject to, and may
not exceed, the limitation of 26 U.S.C. 415(c) during the applicable limitation
year as defined in AS 14.25.590. If the matching employer contribution would
exceed the limits during the limitation year in which the transfer occurs, the
remaining amount of the matching employer contribution shall be made in the
next limitation year, if the limits would not be exceeded.

* Sec. 40. AS 14.25.540(d) is amended to read:

(d) Upon a transfer, all membership service previously earned under the
defined benefit retirement plan shall be nullified for purposes of entitlement to a future
benefit under the defined benefit retirement plan but shall be credited for purposes of
determining vesting in employer contributions under AS 14.25.390(b) and
eligibility to elect medical benefits under AS 14.25.470. Membership service allowed
for credit toward medical benefits does not include any service credit purchased under
AS 14.25.075 for employment by an employer who is not a participating employer in
this chapter.

* Sec. 41. AS 14.25.540(h) is amended to read:

(h) A member who is eligible to elect transfer to the defined contribution
retirement plan must make the election not later than 12 months after the first
day of the month following the administrator's receipt of the notification that the
member's employer consents to transfers of its members under (i) of this section.
The election to participate in the defined contribution retirement plan must be made in
writing on forms and in the manner prescribed by the administrator. Before accepting
an election to participate in the defined contribution retirement plan, the administrator
must provide the employee planning on making an election to participate in the
defined contribution retirement plan with information, including calculations to
illustrate the effect of moving the employee's retirement plan from the defined benefit
retirement plan to the defined contribution retirement plan as well as other information
to clearly inform the employee of the potential consequences of the employee's
election. An election made under this subsection to participate in the defined
contribution retirement plan is irrevocable. Upon making the election, the participant shall be enrolled as a member of the defined contribution retirement plan, the member's participation in the plan shall be governed by the provisions of AS 14.25.310 - 14.25.590, and the member's participation in the defined benefit retirement plan under AS 14.25.009 - 14.25.220 shall terminate. The participant's enrollment in the defined contribution retirement plan shall be effective the first day of the month after the administrator receives the completed enrollment forms. An election made by an eligible member who is married is not effective unless the election is signed by the individual's spouse.

* Sec. 42. AS 14.25 is amended by adding a new section to read:

Sec. 14.25.582. Special rules for treatment of qualified military service.
Notwithstanding any contrary provisions of AS 14.25.310 - 14.25.590, with respect to qualified military service, contributions shall be made and benefits and service credit shall be provided in accordance with 26 U.S.C. 414(u).

* Sec. 43. AS 14.25.590(7) is amended to read:

(7) "compensation"

(A) means

(i) the total remuneration earned by an employee for personal services rendered, including cost-of-living differentials, as reported on the employee's Federal Income Tax Withholding Statement (Form W-2) from the employer for the calendar year;

(ii) the member contribution to the teachers' retirement system under AS 14.25.340;

(B) does not include retirement benefits, severance pay or other separation bonuses, welfare benefits, per diem, expense allowances, workers' compensation payments, payments for leave not used whether those leave payments are scheduled payments, lump-sum payments, donations, or cash-ins, any remuneration contributed by the employer for or on account of the employee under this plan or under any other qualified or nonqualified employee benefit plan, or any remuneration not specifically included above that would have been excluded under 26 U.S.C. 3121(a) (Internal Revenue
Code) if the employer had remained in the Federal Social Security System[, OR ANY REMUNERATION PAID BY THE EMPLOYER IN EXCESS OF THE SOCIAL SECURITY TAXABLE WAGE BASE FOR THE CALENDAR YEAR];

(C) notwithstanding (B) of this paragraph, includes any amount that is contributed by the employer under a salary reduction agreement and that is not includible in the gross income of the employee under 26 U.S.C. 125, 132(f)(4), 402(e)(3), 402(h)(1)(B), or 403(b) (Internal Revenue Code); the annual compensation limitation for the member, which is so taken into account for those purposes, may not exceed $200,000, as adjusted for the cost of living in accordance with 26 U.S.C. 401(a)(17)(B) (Internal Revenue Code), with the limitation for a fiscal year being the limitation in effect for the calendar year within which the fiscal year begins;

* Sec. 44. AS 22.25.022(c)(2) is amended to read:

(2) "distributee" means a member or a beneficiary who is the surviving spouse of the member or an alternate payee;

* Sec. 45. AS 22.25.022(c)(3) is amended to read:

(3) "eligible retirement plan"

[(A) means

(A) [(i)] an individual retirement account described in 26 U.S.C. 408(a);

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

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

(D) [(iv)] a qualified trust described in 26 U.S.C. 401(a);

(E) [(v)] on and after January 1, 2002, an annuity plan described in 26 U.S.C. 403(b);

(F) [OR (vi)] on or after January 1, 2002, a governmental plan described in 26 U.S.C. 457(b); or

(G) on or after January 1, 2008, a Roth IRA described in 26 U.S.C. 408A [AND]
(B) NOTWITHSTANDING (A) OF THIS PARAGRAPH, MEANS, WITH RESPECT TO DISTRIBUTIONS MADE BEFORE JANUARY 1, 2002, AN INDIVIDUAL RETIREMENT ACCOUNT OR AN INDIVIDUAL RETIREMENT ANNUITY ACCOUNT DESCRIBED OR DEFINED IN 26 U.S.C. 408 IN THE CASE OF AN ELIGIBLE ROLLOVER DISTRIBUTION TO A BENEFICIARY WHO IS THE SURVIVING SPOUSE OF A MEMBER;

* Sec. 46. AS 22.25.022(c)(4) is amended to read:

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

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

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

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

(D) the portion of any distribution that is not includable in gross income; however, a portion under this subparagraph may be transferred only to an individual retirement account or annuity described in 26 U.S.C. 408(a) or (b), to a qualified plan described in 26 U.S.C. 401(a) or 403(a), or to an annuity contract described in 26 U.S.C. 403(b), that agrees to separately account for amounts transferred, including separately accounting for the portion of the distribution that is includable in gross income and the portion of the distribution that is not includable in gross income; and

(E) [A DISTRIBUTION MADE ON OR AFTER JANUARY 1, 2002, THAT IS ON ACCOUNT OF HARDSHIP; AND

(F)] other distributions that are reasonably expected to total less than $200 during a year.
* Sec. 47. AS 22.25.046 is amended by adding a new subsection to read:

(c) Employer contributions shall be separately computed for benefits provided by AS 22.25.090 and shall be deposited in the Alaska retiree health care trust established under AS 39.30.097(a).

* Sec. 48. AS 22.25.090 is amended by adding a new subsection to read:

(f) On and after July 1, 2007, benefits under this section shall be provided in part by the Alaska retiree health care trust established under AS 39.30.097(a).

* Sec. 49. AS 37.10.210(a) is amended to read:

(a) The Alaska Retirement Management Board is established in the Department of Revenue. The board's primary mission is to serve as the trustee of the assets of the state's retirement systems, the State of Alaska Supplemental Annuity Plan, and the deferred compensation program for state employees, and the Alaska retiree health care trusts established under AS 39.30.097. Consistent with standards of prudence, the board has the fiduciary obligation to manage and invest these assets in a manner that is sufficient to meet the liabilities and pension obligations of the systems, plan, [AND] program, and trusts. The board may, with the approval of the commissioner of revenue and upon agreement with the responsible fiduciary, manage and invest other state funds so long as the activity does not interfere with the board's primary mission. In making investments, the board shall exercise the powers and duties of a fiduciary of a state fund under AS 37.10.071.

* Sec. 50. AS 39.30 is amended by adding new sections to read:

Sec. 39.30.097. Alaska retiree health care trusts. (a) The commissioner of administration is authorized to prefund medical benefits provided by AS 14.25.168, AS 22.25.090, and AS 39.35.535 by establishing an irrevocable trust that is exempt from federal income tax under 26 U.S.C. 115 and subject to the applicable financial reporting, disclosure, and actuarial requirements of the Governmental Accounting Standards Board.

(b) The commissioner of administration is authorized to prefund medical benefits provided by AS 14.25.480, AS 39.30.300, and AS 39.35.880 by establishing an irrevocable trust that is exempt from federal income tax under 26 U.S.C. 115 and subject to the applicable financial reporting, disclosure, and actuarial requirements of
the Governmental Accounting Standards Board.

(c) The plans and assets of the Alaska retiree health care trusts shall be under the governance and investment authority of the Alaska Retirement Management Board, which shall serve as trustee of the trust as provided in AS 37.10.210. The commissioner of administration or the commissioner’s designee shall serve as administrator of the Alaska retiree health care trusts.

(d) All employer contributions, appropriations, earnings, and reserves for the payment of retiree medical obligations shall be credited to the retiree health care trusts. The prefunded amounts shall be available without fiscal year limitations for retiree medical benefits and administration costs. The amounts remaining in the trusts, if any, after retiree medical benefits and administration costs have been paid in any year shall be retained in the trusts for future payments until the satisfaction of all employer liabilities under the trusts for retiree medical benefits. All prefunded amounts shall be used solely for the payment of retiree medical benefits and administration costs and for no other purpose.

(e) The assets of the Alaska retiree health care trusts may be pooled, for investment purposes, with assets of the retirement systems, so long as such assets are accounted for separately.

Section 39.30.098. Regulations. The commissioner of administration may adopt regulations to implement AS 39.30.090 - 39.30.097. Regulations adopted by the commissioner under this section relate to the internal management of state agencies, and their adoption is not subject to AS 44.62 (Administrative Procedure Act).

* Section 51. AS 39.30.154 is amended to read:

Section 39.30.154. Powers and duties of the administrator. The administrator has the same powers and duties with regard to the plan as those set out in AS 14.25.003 and 14.25.004 [AS 14.25.004].

* Section 52. AS 39.30.160(a) is amended to read:

(a) The Department of Administration shall, in accordance with policies prescribed by regulations adopted by the commissioner [OF THE ALASKA RETIREMENT MANAGEMENT BOARD], provide to employees for whom special individual employee benefit accounts are established under AS 39.30.150(c) the
following benefit options:

(1) supplemental health benefits;
(2) supplemental death benefits;
(3) supplemental disability benefits; and
(4) supplemental dependent care benefits.

* Sec. 53. AS 39.30.160(e) is amended to read:

(e) Regulations adopted by the commissioner [BOARD] implementing
AS 39.30.150 and this section are not subject to AS 44.62 (Administrative Procedure
Act).

* Sec. 54. AS 39.30 is amended by adding a new section to read:

Sec. 39.30.165. Appeals. A final decision made under AS 39.30.150 -
39.30.180 is subject to appeal under AS 44.64.

* Sec. 55. AS 39.30 is amended by adding a new section to read:

Sec. 39.30.335. Appeals. A final decision made under AS 39.30.300 -
39.30.495 is subject to appeal under AS 44.64.

* Sec. 56. AS 39.30.340 is amended to read:

Sec. 39.30.340. Powers and duties of the administrator. The administrator
shall establish a teachers' and public employees' retiree health reimbursement
arrangement plan trust fund in which the assets of the plan shall be deposited and held.
The retiree health reimbursement arrangement plan trust fund may be a sub-
trust of the Alaska retiree health care trust established under AS 39.30.097(b).
The administrator has the same powers and duties with regard to the plan and the trust
fund as provided in AS 14.25.003 and 14.25.004 [AS 14.25.004].

* Sec. 57. AS 39.30.370 is amended to read:

Sec. 39.30.370. Contributions by employers. For each member of the plan,
an employer shall contribute to the teachers' and public employees' retiree health
reimbursement arrangement plan trust fund an amount equal to three percent of the
average annual compensation of all employees of all employers in the teachers'
retirement system and public employees' retirement system [EMPLOYER'S
AVERAGE ANNUAL EMPLOYEE COMPENSATION]. The administrator shall
maintain a record for each member to account for employer contributions on behalf of
that member. The board shall establish by regulation the rate of interest to be applied annually to the amount in a member's individual account.

*Sec. 58.* AS 39.35.115 is amended by adding new subsections to read:

(d) The retirement plan established by AS 39.35.095 - 39.35.680 is a joint contributory plan.

(e) If, upon termination of the plan, all liabilities are satisfied, any excess assets shall revert to the employers as determined by the administrator, subject to the approval of the termination by the Internal Revenue Service.

*Sec. 59.* AS 39.35.165(f) is amended to read:

(f) The board may accept rollover contributions from a member and direct transfers, as described in this subsection, for the purchase, in whole or in part, of credited service for the reinstatement, in whole or in part, of forfeited credited service under AS 39.35.350. A rollover contribution or transfer as described in this subsection shall also be treated as employer contributions for the purpose of determining tax treatment under the Internal Revenue Code and may be made by any one or a combination of the following methods:

1. subject to the limitations prescribed in 26 U.S.C. 401(a)(3) and 26 U.S.C. 402(c), accepting eligible rollover distributions directly from one or more eligible retirement plans as defined by 26 U.S.C. 402(c)(8)(B) [PROGRAMS OF ANOTHER EMPLOYER THAT ARE QUALIFIED UNDER 26 U.S.C. 401(a) OR ACCEPTING ROLLOVERS DIRECTLY FROM A MEMBER];

2. [SUBJECT TO THE LIMITATIONS PRESCRIBED IN 26 U.S.C. 408(d)(3)(A)(ii), ACCEPTING FROM A MEMBER CONDUIT ROLLOVER CONTRIBUTIONS THAT ARE RECEIVED BY THE EMPLOYEE FROM ONE OR MORE CONDUIT ROLLOVER INDIVIDUAL RETIREMENT ACCOUNTS PREVIOUSLY ESTABLISHED BY THE MEMBER;

3. subject to the limitations prescribed in 26 U.S.C. 403(b)(13), accepting direct trustee-to-trusted transfers of all or a portion of the accounts of the member, on or after January 1, 2002, from a tax sheltered annuity described in 26 U.S.C. 403(b);

(3) [(4)] subject to the limitations prescribed in 26 U.S.C. 457(e)(17),
accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the
member, on or after January 1, 2002, from an eligible deferred compensation plan of a
tax-exempt organization or a state or local government described in 26 U.S.C. 457(b);

(4) accepting direct trustee-to-trustee transfer from an account established for the benefit of the member in AS 39.30.150 - 39.30.180 (Alaska Supplemental Annuity Plan).

* Sec. 60. AS 39.35.165(f), as amended by sec. 59 of this Act, is amended to read:

(f) The board may accept rollover contributions from a member [AND DIRECT TRANSFERS, AS DESCRIBED IN THIS SUBSECTION, FOR THE PURCHASE, IN WHOLE OR IN PART, OF CREDITED SERVICE FOR THE REINSTATEMENT, IN WHOLE OR IN PART, OF FORFEITED CREDITED SERVICE UNDER AS 39.35.350]. A rollover contribution [OR TRANSFER] as described in this subsection shall also be treated as employer contributions for the purpose of determining tax treatment under the Internal Revenue Code and may be made by any one or a combination of the following methods:

(1) subject to the limitations prescribed in 26 U.S.C. 401(a)(3) and 26 U.S.C. 402(c), accepting eligible rollover distributions directly from one or more eligible retirement plans as defined by 26 U.S.C. 402(c)(8)(B);

(2) subject to the limitations prescribed in 26 U.S.C. 403(b)(13), accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the member, on or after January 1, 2002, from a tax sheltered annuity described in 26 U.S.C. 403(b);

(3) subject to the limitations prescribed in 26 U.S.C. 457(e)(17), accepting direct trustee-to-trustee transfers of all or a portion of the accounts of the member, on or after January 1, 2002, from an eligible deferred compensation plan of a tax-exempt organization or a state or local government described in 26 U.S.C. 457(b);

(4) accepting direct trustee-to-trustee transfer from an account established for the benefit of the member in AS 39.30.150 - 39.30.180 (Alaska Supplemental Annuity Plan).

* Sec. 61. AS 39.35.195(b) is amended to read:

(b) Except as provided by AS 39.35.165(f) [AS 39.35.165(f)(5)], the plan does
not accept contributions of eligible rollover distributions.

* Sec. 62. AS 39.35.195(c)(2) is amended to read:
(2) "distributee" means a member or a beneficiary who is the surviving spouse of the member or an alternate payee;

* Sec. 63. AS 39.35.195(c)(3) is amended to read:
(3) "eligible retirement plan"

[(A)] means an individual retirement account described in 26 U.S.C. 408(a);

[(B)] an individual retirement annuity defined in 26 U.S.C. 408(b);

[(C)] an annuity plan described in 26 U.S.C. 403(a);

[(D)] a qualified trust described in 26 U.S.C. 401(a);

[(E)] on and after January 1, 2002, an annuity plan described in 26 U.S.C. 403(b);

[(F)] on or after January 1, 2002, a governmental plan described in 26 U.S.C. 457(b); or

[(G) on or after January 1, 2008, a Roth IRA described in 26 U.S.C. 408A AND

(B) NOTWITHSTANDING (A) OF THIS PARAGRAPHS, MEANS, WITH RESPECT TO DISTRIBUTIONS MADE BEFORE JANUARY 1, 2002, AN INDIVIDUAL RETIREMENT ACCOUNT OR AN INDIVIDUAL RETIREMENT ANNUITY ACCOUNT DESCRIBED OR DEFINED IN 26 U.S.C. 408 IN THE CASE OF AN ELIGIBLE ROLLOVER DISTRIBUTION TO A BENEFICIARY WHO IS THE SURVIVING SPOUSE OF A MEMBER];

* Sec. 64. AS 39.35.195(c)(4) is amended to read:
(4) "eligible rollover distribution" means a distribution of all or part of a total account to a distributee, except for

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

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

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

(D) the portion of any distribution that is not includable in gross income; however, a portion under this subparagraph may be transferred only to an individual retirement account or annuity described in 26 U.S.C. 408(a) or (b), to a qualified plan described in 26 U.S.C. 401(a) or 403(a), or to an annuity contract described in 26 U.S.C. 403(b), that agrees to separately account for amounts transferred, including separately accounting for the portion of the distribution that is includable in gross income and the portion of the distribution that is not includable in gross income; and

(E) [A DISTRIBUTION MADE ON OR AFTER JANUARY 1, 2002, THAT IS ON ACCOUNT OF HARDSHIP; AND

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

* Sec. 65. AS 39.35.250 is amended to read:

Sec. 39.35.250. Calculation of employer's contribution rate. (a) An employer shall make contributions to the plan [IN AMOUNTS DETERMINED] in accordance with this section. For the purposes of this section and AS 39.35.270, the [PAST SERVICE DATE FOR EACH EMPLOYER IS THE ENTRY DATE OF THE EMPLOYER OR DECEMBER 31, 1972, WHICHER IS LATER. AFTER DECEMBER 31, 1972, IF AMENDMENTS TO AS 39.35.095 - 39.35.680 ARE ENACTED THAT SUBSTANTIALLY AFFECT BENEFITS ACCRUED BEFORE THE EFFECTIVE DATE OF THE AMENDMENT, THE PAST SERVICE DATE WILL BE CHANGED TO DECEMBER 31 OF THE YEAR IMMEDIATELY PRECEDING THAT IN WHICH THE AMENDMENT IS ENACTED. THE] contribution rate is the sum of the consolidated employer normal cost rate and the
past service rate as approved by the board.

(b) In (a) of this section, "consolidated employer normal cost rate" means the percentage of compensation of all active employees in the system that, [PLAN WHICH, IF PAID OVER THE PERIOD OF THEIR CREDITED SERVICE AFTER THEIR PAST SERVICE DATE AND] when combined with all employee contributions to the plan, is sufficient to provide the benefits earned during the year beginning after the last valuation date [AFTER SUCH PAST SERVICE DATES]. This percentage is [UNIFORMLY] determined at the plan level for all employers and is applicable to each employer.

(c) In (a) of this section, "past service rate" means the percentage of compensation of all active employees in the system necessary to provide the annual amount required to amortize the unfunded obligations of the employer for benefits earned by the employer's members in the plan as of [BEFORE] the date of the last actuarial valuation [EMPLOYER'S PAST SERVICE DATE] over a period not to exceed the maximum allowed by generally accepted accounting principles of the Governmental Accounting Standards Board [40 YEARS. THE PERIOD OF AMORTIZATION BEGINS AT THE PAST SERVICE DATE OF EACH EMPLOYER]. The percentage is separately determined for each employer.

* Sec. 66. AS 39.35.250 is amended by adding a new subsection to read:

(d) Employer contributions shall be separately computed for benefits provided by AS 39.35.535 and shall be deposited in the Alaska retiree health care trust established under AS 39.30.097(a).

* Sec. 67. AS 39.35.270(a) is amended to read:

(a) The amount of each employer's contributions shall be determined by applying the sum of the consolidated employer normal cost [EMPLOYER'S CONTRIBUTION] rate and the employer's past service rate to the total compensation paid to the employer's active employees in the system [AS CERTIFIED BY THE BOARD, TO THE TOTAL COMPENSATION PAID TO THE ACTIVE EMPLOYEES OF THE EMPLOYER] for each payroll period, including any adjustments to contributions required by AS 39.35.520(a). This amount shall be remitted by the employer to the administrator in accordance with
* Sec. 68. AS 39.35.375(a) is amended to read:

(a) An active or inactive member who has never been vested in this plan or in the teachers' retirement plan under AS 14.25.009 - 14.25.220, who has at least two years of credited service in this plan, and who has membership service in the teachers' retirement system may claim credited service in this plan in an amount equal to the membership service the member has in the teachers' retirement system. The claimed credited service may be added to service earned under AS 39.35.095 - 39.35.680 to enable the member to qualify for a public service benefit under this section. The member may not claim credited service for membership service for which the member has received a refund under AS 14.25.150 [UNLESS THE MEMBER FULLY PAYS THE INDEBTEDNESS AS ESTABLISHED UNDER AS 14.25.063]. The member may not claim credited service in this plan based on unused sick leave under AS 14.25.115.

* Sec. 69. AS 39.35.385(c) is amended to read:

(c) Credited service for which contributions were refunded is not creditable under this section [UNLESS THE REFUNDED CONTRIBUTIONS HAVE BEEN REPAYED. FOR PURPOSES OF (a) AND (b) OF THIS SECTION, A MEMBER OR FORMER MEMBER DOES NOT HAVE TO BE REEMPLOYED UNDER THIS PLAN IN ORDER TO PAY REFUNDED CONTRIBUTIONS. COMPOUND INTEREST AT THE RATE PRESCRIBED BY REGULATION SHALL BE ADDED TO THE REINSTATEMENT INDEBTEDNESS FROM THE DATE OF THE REFUND TO THE DATE OF REPAYMENT].

* Sec. 70. AS 39.35.522(d) is amended to read:

(d) **A decision of the [THE] commissioner of administration under this section to deny a waiver under this section may be appealed to the office of administrative hearings. The office of administrative hearings may reverse the decision of the commissioner and may impose conditions on the granting of a waiver which it considers equitable. These conditions may include requiring the member or beneficiary to make additional contributions to the plan.**

* Sec. 71. AS 39.35.535 is amended by adding a new subsection to read:
(f) On and after July 1, 2007, benefits under this section shall be provided in part by the Alaska retiree health care trust established under AS 39.30.097(a).

* Sec. 72. AS 39.35.610 is amended by adding a new subsection to read:

(b) If contributions are not submitted within the prescribed time limit, the amount of contributions and interest due may be claimed by the administrator from any agency of the state or political subdivision that has in its possession funds of the employer or that is authorized to disburse funds to the employer that are not restricted by statute or appropriation to a specific purpose. The amount claimed shall be certified by the administrator as sufficient to pay the contributions and interest due from the employer. The amount claimed shall be submitted to the administrator for deposit in the retirement fund and the Alaska retiree health care trust.

* Sec. 73. AS 39.35.615 is amended by adding new subsections to read:

(g) An employer terminating participation in the plan shall pay termination costs determined by the administrator, or enter into a payment plan acceptable to the administrator, within 60 days after the employer receives notice of its termination costs from the administrator. Termination costs not paid within the prescribed time limit or in accordance with the approved payment plan shall be collected by the administrator in accordance with AS 39.35.610(b). Termination of participation by an employer in the plan does not bar future participation by the employer under AS 39.35.700 - 39.35.990 if the employer has paid in full its prior termination costs.

(h) A political subdivision or public organization considering or requesting termination from the plan shall pay the cost associated with obtaining a termination cost study associated with the employer's termination.

* Sec. 74. AS 39.35.620 is amended by adding new subsections to read:

(i) An employer terminating participation in the plan shall pay termination costs determined by the administrator, or enter into a payment plan acceptable to the administrator, within 60 days after the employer receives notice of the cost. Termination costs not paid within the prescribed time limit or in accordance with the approved payment plan shall be collected by the administrator in accordance with AS 39.35.610(b). Termination of participation by an employer in the plan does not bar future participation by the employer under AS 39.35.700 - 39.35.990 if the employer
has paid in full its prior termination costs.

(j) A political subdivision or public organization being terminated from the plan shall pay the cost associated with obtaining a termination cost study associated with the employer's termination.

* Sec. 75. AS 39.35.650 is amended to read:

Sec. 39.35.650. Refunds to employers. An employer may not receive an amount from the plan, except as provided under AS 39.35.115(e), 39.35.615(e), or [AS 39.35.615(e) AND] 39.35.620(g).

* Sec. 76. AS 39.35 is amended by adding a new section to read:

Sec. 39.35.678. Internal Revenue Code compliance. (a) The administrator shall use forfeitures that arise for any reason, including from termination of employment or death, to reduce employer contributions. Forfeitures may not be applied to increase the benefits of any member.

(b) The administrator shall determine the amount of any benefit that is determined on the basis of actuarial tables using assumptions approved by the commissioner. The amount of benefits is not subject to employer discretion.

(c) Employee contributions paid to, and retirement benefits paid from, the plan may not exceed the annual limits on contributions and benefits, respectively, allowed by 26 U.S.C. 415. Notwithstanding any contrary provision of law, the administrator may modify a request by a member to make a contribution to a plan if the amount of the contribution would exceed the limits provided in 26 U.S.C. 415 by using the following methods:

(1) if the law requires a lump sum payment for the purchase of service credit, the administrator may establish a periodic payment plan for the member to avoid a contribution in excess of the limits under 26 U.S.C. 415(c) or (n);

(2) if a periodic payment plan under (1) of this subsection will not avoid a contribution in excess of the limits imposed by 26 U.S.C. 415(c), the administrator may either reduce the member's contribution to an amount within the limits of that section or refuse the member's contribution.

* Sec. 77. AS 39.35.680(3) is amended to read:

(3) "administrator" means [THE PERSON APPOINTED BY] the
commissioner of administration or the commissioner's designee appointed under AS 39.35.003 [AS 39.35.050];

* Sec. 78. AS 39.35.680(9) is amended to read:

(9) "compensation" means the remuneration earned by an employee for personal services rendered to an employer, including employee contributions under AS 39.35.160, cost-of-living differentials only as provided in AS 39.35.675, payments for leave that is actually used by the employee, the amount by which the employee's wages are reduced under AS 39.30.150(c), an amount that is contributed by the employer under a salary reduction agreement and that is not includable in the gross income of the employee under 26 U.S.C. 125 or 132(f)(4), and any amount deferred under an employer-sponsored deferred compensation plan, but does not include retirement benefits, severance pay or other separation bonuses, welfare benefits, per diem, expense allowances, workers' compensation payments, or payments for leave not used by the employee whether those leave payments are scheduled payments, lump-sum payments, donations, or cash-ins; for a member first hired on or after July 1, 1996, compensation does not include remuneration in excess of the limitations set out in 26 U.S.C. 401(a)(17) (Internal Revenue Code);

* Sec. 79. AS 39.35.680(18) is amended to read:

(18) "employer" means

(A) the State of Alaska; [OR]

(B) a political subdivision or public organization of the state that participates in the plan based on a resolution to participate in the plan that was approved by the administrator on or before July 1, 2006; or

(C) a political subdivision or public organization of the state that, as a result of consolidation or reorganization that occurs on or after July 1, 2006, assumes liability under the plan of a political subdivision or public organization described in (B) of this paragraph;

* Sec. 80. AS 39.35.700 is amended to read:

Sec. 39.35.700. Applicability of AS 39.35.700 - 39.35.990. The provisions of AS 39.35.700 - 39.35.990 apply only to members first hired on or after July 1, 2006, to members who are employed by employers that do not participate in the
defined benefit retirement plan established under AS 39.35.095 - 39.35.680, or to
members who transfer into the defined contribution retirement plan under
AS 39.35.940.

* Sec. 81. AS 39.35.700, as amended by sec. 80 of this Act, is amended to read:

Sec. 39.35.700. Applicability of AS 39.35.700 - 39.35.990. The provisions of
AS 39.35.700 - 39.35.990 apply only to members first hired on or after July 1, 2006,
to members who are employed by employers that do not participate in the defined
benefit retirement plan established under AS 39.35.095 - 39.35.680, to former
members as defined in AS 39.35.680, or to members who transfer into the defined
contribution retirement plan under AS 39.35.940.

* Sec. 82. AS 39.35.710(c) is amended to read:

(c) The retirement plan established by AS 39.35.700 - 39.35.990 is intended to
qualify under 26 U.S.C. 401(a), and 414(d) (Internal Revenue Code) as a qualified retirement plan established and maintained by the state for its employees, for the employees of political subdivisions, public corporations, and public organizations of the state, and for the employees of other employers whose participation is authorized by AS 39.35.700 - 39.35.990 and who participate in the plan set out in AS 39.35.700 - 39.35.990. Benefits under AS 39.35.880 are not provided by the defined contribution retirement plan.

* Sec. 83. AS 39.35 is amended by adding a new section to read:

Sec. 39.35.725. Participation of elected officials of political subdivisions. (a)
An elected official of a political subdivision of the state that participates in both the plan and the defined benefit plan of AS 39.35.095 - 39.35.680 is a member of the plan if

(1) the political subdivision covers elected officials under AS 39.35.550 - 39.35.650 and has designated elected officials under AS 39.35.957 as a classification of employees entitled to participate in the plan; and

(2) the elected official receives compensation from the political subdivision for services as an elected official in the amount of at least $2,001 a month.

(b) An elected official of a political subdivision of the state that participates in the plan but not the defined benefit plan of AS 39.35.095 - 39.35.680 is a member of
the plan if

(1) the political subdivision has designated elected officials under AS 39.35.957 as a classification of employees entitled to participate in the plan; and

(2) the elected official receives compensation from the political subdivision for services as an elected official in the amount of at least $2,001 a month.

(c) An elected official entitled to participate under this section, and who either has no previous service under the system with the political subdivision or is retired under the system, may file a waiver of participation in the plan with the administrator within 30 days after the later of the effective date of this section or the date that the elected official's term of office begins. A waiver is irrevocable for the remainder of the elected official's service as an elected official or employee of the political subdivision.

* Sec. 84. AS 39.35.750(b) is amended to read:

(b) An employer shall also contribute an amount equal to a percentage, as adopted [CERTIFIED] by the board, of each member's compensation from July 1 to the following June 30 to pay for retiree major medical insurance. This contribution shall be paid into the Alaska retiree health care trust [GROUP HEALTH AND LIFE BENEFITS FUND] established by the commissioner of administration under AS 39.30.097(b) [AS 39.30.095] and shall be accounted for in accordance with regulations established by the commissioner.

* Sec. 85. AS 39.35.750(e) is amended to read:

(e) An employer shall make annual contributions to a trust account in the plan, applied as a percentage of each member's compensation from July 1 to the following June 30, in an amount determined by the board to be actuarially required to fully fund the cost of providing occupational disability and occupational death benefits under AS 39.35.700 - 39.35.990 and retirement benefits elected by disabled peace officers and fire fighters under AS 39.35.890(h)(2) [AS 39.35.890 AND 39.35.892]. The contribution required under this subsection for peace officers and fire fighters and the contribution required under this subsection for other employees shall be separately calculated based on the actuarially calculated costs for each group of employees.

* Sec. 86. AS 39.35.760(d)(3) is amended to read:

(3) "eligible retirement plan" means
(A) an [A CONDUIT] individual retirement account described in 26 U.S.C. 408(d)(3)(A);

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

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

(D) an annuity plan described in 26 U.S.C. 403(b); [OR]

(E) a governmental plan described in 26 U.S.C. 457(b);

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

(G) on or after January 1, 2008, a Roth IRA described in 26 U.S.C. 408A;

* Sec. 87. AS 39.35.760(d)(4) is amended to read:

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

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

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

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

(D) the portion of any distribution that is not includable in gross income; however, a portion under this subparagraph may be transferred only to an individual retirement account or annuity described in 26 U.S.C. 408(a) or (b), to a qualified plan described in 26 U.S.C. 401(a) or 403(a), or to an annuity contract described in 26 U.S.C. 403(b), that agrees to separately account for amounts transferred, including separately accounting for the portion of the distribution that is includable in gross income and the portion of the distribution that is not includable in gross income; and

(E) [A DISTRIBUTION THAT IS ON ACCOUNT OF
HARDSHIP; AND

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

* Sec. 88. AS 39.35.770 is amended to read:

Sec. 39.35.770. Transmittal of contributions. All contributions deducted in accordance with AS 39.35.700 - 39.35.990 shall be transmitted to the plan for deposit in the appropriate account or trusts [TRUST FUND] as soon as administratively feasible, but in no event later than 15 days following the close of the payroll period.

* Sec. 89. AS 39.35.770 is amended by adding new subsections to read:

(b) If contributions are not transmitted within the prescribed time limit, interest shall be assessed on the outstanding contributions at the rate established under AS 39.35.610 from the date that contributions were originally due. Amounts due from an employer and interest as prescribed in this subsection may be claimed by the administrator from any agency of the state or political subdivision that has in its possession funds of the employer or that is authorized to disburse funds to the employer that are not restricted by statute or appropriation to a specific purpose. The amount claimed shall be certified by the administrator as sufficient to pay the contributions and interest due from the employer. The amount claimed shall be submitted to the administrator for deposit in the appropriate account or trusts.

(c) Employers are responsible for administrative fees, investment fees, and investment losses charged to accounts established under AS 39.35.730 resulting from contribution adjustments due to employers enrolling members in the plan before the members are eligible for membership. Contributions made by employees shall be returned to the employer by reducing future employee contributions due. Contributions, net of fees and investment losses, made by employers shall be used to reduce future employer contributions due.

* Sec. 90. AS 39.35.780 is amended to read:

Sec. 39.35.780. Limitations on contributions and benefits. Notwithstanding any other provisions of this plan, the annual additions to each member's individual account under this plan and under all defined contribution plans of the employer required to be aggregated with the contributions from this plan under the provisions of
26 U.S.C. 415 may not exceed, for any limitation year, the amount permitted under 26
U.S.C. 415(c) [26 U.S.C. 415] at any time. If the amount of a member's individual
account [DEFINED CONTRIBUTION PLAN] contributions exceeds the limitation of
26 U.S.C. 415(c) for any limitation year, the administrator shall take any necessary
remedial action to correct an excess contribution. A fixed benefit provided under
this plan may not exceed, for or during a limitation year, the amount permitted
under 26 U.S.C. 415(b). If a fixed benefit provided under this plan exceeds, for or
during a limitation year, the amount permitted under 26 U.S.C. 415(b), the
administrator shall take remedial action necessary to comply with the limits on
the benefit amount in 26 U.S.C. 415(b). The provisions of 26 U.S.C. 415, and the
regulations adopted under that statute, as applied to qualified [DEFINED
CONTRIBUTION] plans of governmental employees are incorporated as part of the
terms and conditions of the plan.

* Sec. 91. AS 39.35.890(b) is amended to read:

(b) The occupational disability benefits accrue beginning the first day of the
month following termination of employment as a result of the disability and are
payable the last day of the month. If a final determination granting the benefit is not
made in time to pay the benefit when due, a retroactive payment shall be made to
cover the period of deferment. The last payment shall be for the first month in which
the disabled employee

(1) dies;
(2) recovers from the disability;
(3) fails to meet the requirements under (f), [OR] (j), or (l) of this
section; or
(4) reaches normal retirement age.

* Sec. 92. AS 39.35.890(d) is amended to read:

(d) The monthly amount of an occupational disability benefit is 40 percent of
the disabled employee's gross monthly compensation at the time of termination due to
disability. Notwithstanding AS 39.35.790(b), at the time a member is appointed to
disability, the member becomes fully vested in the employer contributions made
under AS 39.35.750(a). A disabled member is fully vested in the contributions to
An employee is not entitled to elect distributions from the employee's individual contribution account under AS 39.35.810 while the employee is receiving disability benefits under this section. While an employee is receiving disability benefits, based on the disabled employee's gross monthly compensation at the time of termination due to disability, the employer shall make contributions

1. to the employee's individual account under AS 39.35.730 on behalf of the employee, without deduction from the employee's disability payments; and
2. on behalf of the employee under AS 39.35.750.

* Sec. 93. AS 39.35.890(g) is amended to read:

(g) A disabled employee's occupational disability benefit terminates the last day of the month in which [WHEN] the disabled employee first attains eligibility for normal retirement. At that time, the employee's retirement benefit shall be determined under the provisions of AS 39.35.820 - 39.35.840, 39.35.870, and 39.35.880. An employee whose occupational disability benefit terminates under this subsection [RECEIVING DISABILITY BENEFITS UP UNTIL ELIGIBILITY FOR RETIREMENT] shall be considered to have retired directly from the plan.

* Sec. 94. AS 39.35.890(h) is amended to read:

(h) Notwithstanding (g) of this section, at the time a peace officer or fire fighter receiving occupational disability benefits under this section first attains eligibility for normal retirement, the employee shall irrevocably elect to receive retirement benefits in the amount calculated as the

1. employee's retirement benefit calculated under the provisions of AS 39.35.820 - 39.35.840; or
2. employee's retirement benefit calculated as if the provisions of AS 39.35.370(c) were to apply; however, pension [RETIREMENT] benefits paid under this paragraph must be paid first from the peace officer's or fire fighter's individual contribution account, and the remaining benefits must be paid from the trust account established under AS 39.35.750(e); the peace officer or fire fighter may not elect other distributions from the peace officer's or fire fighter's
individual contribution account under AS 39.35.810 [MAY NOT BE MADE FROM THE TRUST FUND OF THE PUBLIC EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN].

* Sec. 95. AS 39.35.890(k) is amended to read:

(k) Upon the death of a disabled employee who is receiving or is entitled to receive an occupational disability benefit, the administrator shall pay the surviving spouse a surviving spouse's pension, equal to 40 percent of the employee's monthly compensation at the time of termination of employment because of occupational disability. If there is no surviving spouse, the administrator shall pay the survivor's pension in equal parts to the dependent children of the employee. While the monthly survivor's pension is being paid, the survivor is not entitled to elect distributions from the employee's individual contribution account under AS 39.35.810. The first payment of the surviving spouse's pension or of a dependent child's pension shall accrue from the first day of the month following the employee's death and is payable the last day of the month. The last payment shall be made the last day of [FOR] the last day of the month in which there is an eligible surviving spouse or dependent child, or the last day of the month in which the employee would have first qualified for normal retirement if the employee had survived, whichever day is sooner. A retirement benefit shall be determined under the provisions of AS 39.35.820 - 39.35.840, 39.35.870, and 39.35.880 based on [ON] the date the employee would have first qualified for normal retirement [OF THE EMPLOYEE WOULD HAVE OCCURRED] if the employee had survived. In addition to payment of the member's individual account, the surviving spouse or, if there is no surviving spouse, the surviving dependent children of the member, shall receive an additional benefit in an amount equal to the accumulated contributions that would have been made to the deceased member's individual account under AS 39.35.730(a) and 39.35.750(a), based on the deceased member's gross monthly compensation at the time of occupational disability, from the time of the member's death to the date the member would have first qualified for normal retirement if the member had survived. Earnings shall be allocated to the additional benefit calculated under this subsection based on the actual rate of
return, net of expenses, of the trust account established under AS 39.35.750(e) over the period that the contributions would have been made. This additional amount and allocated earnings shall be paid in the same manner as determined for the member's individual account under AS 39.35.820 - 39.35.860 to the extent permitted by the Internal Revenue Service. For the purpose of determining eligibility of an employee's survivor who is receiving a benefit under this subsection for medical benefits under AS 39.35.870 - 39.35.880, an employee [LIVED, THE RETIREMENT BENEFIT SHALL BE DETERMINED UNDER THE PROVISIONS OF AS 39.35.820 - 39.35.840, 39.35.870, AND 39.35.880. AN EMPLOYEE] who died while receiving disability benefits shall be considered to have retired directly from the plan on the date the employee would have first qualified for normal retirement if the employee had survived. The period during which the employee was eligible for a disability benefit and the period during which a survivor's pension is paid to a survivor under this subsection each constitute membership service for the purposes of determining eligibility for medical benefits under AS 39.30.300 - 39.30.495 and AS 39.35.700 - 39.35.990 [NORMAL RETIREMENT OF THE EMPLOYEE WOULD HAVE OCCURRED IF THE EMPLOYEE HAD LIVED].

* Sec. 96. AS 39.35.890(l) is amended to read:

(l) In this section, "occupational disability" means a physical or mental condition that the administrator determines presumably permanently prevents an employee from satisfactorily performing the employee's usual duties or the duties of another comparable position or job available to the employee and for which the employee is qualified by training or education; however, the proximate cause of the condition must be a bodily injury sustained, or a hazard undergone, while in the performance and within the scope of the employee's duties and not the proximate result of the wilful negligence of the employee [HAS THE MEANING GIVEN IN AS 39.35.680].

* Sec. 97. AS 39.35.890 is amended by adding a new subsection to read:

(m) While a survivor under (k) of this section is receiving a survivor's pension, the employer of the deceased employee shall make contributions with respect
to the survivor based on the deceased employee's gross monthly compensation at the
time of termination due to disability

(1) that would have been paid to the employee's individual account
under AS 39.35.730 and 39.35.750(a), to the trust account established under
AS 39.35.750(e), without deduction from the survivor's pension; and

(2) to the appropriate accounts and funds under AS 39.35.750(b) - (e).

* Sec. 98. AS 39.35 is amended by adding a new section to read:

**Sec. 39.35.891. Disability benefit and disabled peace officer or fire fighter**

retirement benefit adjustment. (a) Once each year, the administrator shall increase

disability benefits and retirement benefits elected by disabled peace officers or fire

fighters under AS 39.35.890(h)(2). The amount of the increase is a percentage of the

current disability benefit or retirement benefit equal to the lesser of 75 percent of the

increase in the cost of living in the preceding calendar year or nine percent.

(b) If a disabled member was not receiving a benefit during the entire

preceding calendar year, the increase in the benefit under this section shall be adjusted

by multiplying it by a fraction, the numerator of which is the number of months for

which the benefit was received in the preceding calendar year and the denominator of

which is 12.

(c) If a disabled peace officer or fire fighter elects to receive a retirement

benefit in the amount calculated under AS 39.35.890(h)(2), the administrator shall, at

the time the disabled peace officer or fire fighter is appointed to retirement, increase

the retirement benefit by a percentage equal to the total cumulative percentage that has

been applied to the disabled peace officer's or fire fighter's disability benefit under this

section.

(d) An increase in benefit payments under this section is effective July 1 of

each year and is based on the percentage increase in the Consumer Price Index for

urban wage earners and clerical workers for Anchorage, Alaska, during the previous

calendar year, as determined by the United States Department of Labor, Bureau of

Labor Statistics.

(e) Benefit adjustments under this section shall terminate the last day of the

month following the date on which a disabled member is no longer receiving a
disability benefit under AS 39.35.890, unless the member is a disabled peace officer or
fire fighter and has chosen a retirement benefit under AS 39.35.890(h)(2).

* Sec. 99. AS 39.35.892(b) is amended to read:

(b) The first payment of the surviving spouse's pension or of a dependent
child's pension shall be made for the month following the month in which the
employee dies. Payments [AND PAYMENT] shall cease on the last day of the
month in which there is no longer an eligible spouse or eligible dependent child,
or the last day of the month following the earliest date [TO BE MADE
BEGINNING WITH THE MONTH IN WHICH] the employee would have first
qualified for normal retirement if the employee had survived, whichever day is
sooner.

* Sec. 100. AS 39.35.892(c) is amended to read:

(c) The monthly survivor's pension in (b) of this section for survivors of
employees who were not peace officers or fire fighters is 40 percent of the employee's
monthly compensation in the month in which the employee dies. The monthly
survivor's pension in (b) of this section for survivors of employees who were peace
officers or fire fighters is 50 percent of the monthly compensation in the month in
which the employee dies. While the monthly survivor's pension is being paid, the
survivor is not entitled to elect distributions from the employee's individual
contribution account under AS 39.35.810, except as required by AS 39.35.840.
While the monthly survivor's pension is being paid, the employer shall make
contributions with respect to [ON BEHALF OF] the employee's surviving spouse
and employee's surviving dependent children [BENEFICIARIES] based on the
deceased employee's gross monthly compensation at the time of occupational death

(1) that would have been paid to the employee's individual account
under AS 39.35.730 and 39.35.750(a), to the trust account established under
AS 39.35.750(e), without deduction from the survivor's pension; and

(2) to the appropriate accounts and funds under AS 39.35.750(b) - (e)
[AS 39.35.750].

* Sec. 101. AS 39.35.892(e) is amended to read:

(e) On the date the employee would have first qualified for normal
retirement [OF THE EMPLOYEE WOULD HAVE OCCURRED] if the employee had survived [LIVED], the retirement benefit shall be determined under the provisions of AS 39.35.820 - 39.35.840, 39.35.870, and 39.35.880. In addition to payment of the member's individual account, the surviving spouse or, if there is no surviving spouse, the surviving dependent children of the member, shall receive an additional benefit in an amount equal to the accumulated contributions that would have been made to the deceased member's individual account under AS 39.35.730(a) and 39.35.750(a), based on the deceased member's gross monthly compensation at the time of occupational death, from the time of the member's death to the date the member would have first qualified for normal retirement if the member had survived. Earnings shall be allocated to the additional benefit calculated under this subsection based on the actual rate of return, net of expenses, of the trust account established under AS 39.35.750(e) over the period that such contributions would have been made. This additional amount and allocated earnings shall be paid in the same manner as determined for the member's individual account under AS 39.35.820 - 39.35.860 to the extent permitted by the Internal Revenue Service. An employee who died and whose survivors receive occupational death benefits under this section shall be considered to have retired directly from the plan on the date the [NORMAL RETIREMENT OF THE] employee would have first qualified for normal retirement [OCCURRED] if the employee had survived. The period of time during which a survivor's pension is paid under this section constitutes membership service for the purpose of determining vesting in employer contributions under AS 39.35.790(b) and eligibility for medical benefits under AS 39.30.300 - 39.30.495 and AS 39.35.700 - 39.35.990 [LIVED].

* Sec. 102. AS 39.35 is amended by adding new sections to read:

Sec. 39.35.893. Survivor's pension adjustment. (a) Once each year, the administrator shall increase payments to a person 60 years of age or older receiving a survivor's pension under AS 39.35.890(k) or 39.35.892(c) and to a person who has received a survivor's pension under AS 39.35.890(k) or 39.35.892(c) for at least five years, who is not otherwise eligible for an increase under this section.
(b) The amount of the increase is a percentage of the current survivor's pension equal to the lesser of 50 percent of the increase in the cost of living in the preceding calendar year or six percent.

c) If a survivor was not receiving a pension during the entire preceding calendar year, the increase in the survivor's pension under this section shall be adjusted by multiplying it by a fraction, the numerator of which is the number of months for which the pension was received in the preceding calendar year and the denominator of which is 12.

d) The administrator shall increase the initial survivor's pension paid to a survivor of a member who died while receiving disability benefits by a percentage equal to the total cumulative percentage that has been applied to the member's disability benefit under AS 39.35.891.

e) An increase in benefit payments under this section is effective July 1 of each year and is based on the percentage increase in the Consumer Price Index for urban wage earners and clerical workers for Anchorage, Alaska, during the previous calendar year, as determined by the United States Department of Labor, Bureau of Labor Statistics.

(f) Pension adjustments under this section shall terminate the last day of the month following the date on which a survivor is no longer receiving a survivor's pension under AS 39.35.890(k) or 39.35.892(c).

Sec. 39.35.894. Premiums for retiree major medical insurance coverage upon termination of disability benefits or survivor's pension. The premium for retiree major medical insurance coverage payable by an employee whose disability benefit is terminated under AS 39.35.890(g) or by an eligible survivor whose survivor pension is terminated under AS 39.35.890(k) or 39.35.892(e) when the employee would have been eligible for normal retirement if the employee had survived shall be determined under AS 39.35.880(g)(2) as if the employee or survivor were eligible for Medicare.

* Sec. 103. AS 39.35.900 is amended by adding new subsections to read:

d) The administrator shall use forfeitures in the fixed benefit account of the plan that arise for any reason, including from termination of employment or death, to
reduce employer contributions. Forfeitures may not be applied to increase the benefits of any member.

(e) The administrator shall determine the amount of any fixed benefit that is determined on the basis of actuarial tables using assumptions approved by the commissioner. The amount of benefits is not subject to employer discretion.

* Sec. 104. AS 39.35.910 is amended to read:

Sec. 39.35.910. Nonguarantee of returns, rates, or benefit amounts. The plan created by AS 39.35.700 - 39.35.990 is, with respect to individual accounts, treated as a defined contribution plan, and not a defined benefit plan. The amount of money in the individual account of a participant depends on the amount of contributions and the rate of return from investments of the account that varies over time. If benefits are paid in the form of an annuity, the benefit amount payable is dependent on the amount of money in the account and the interest rates applied and service fees charged by the annuity payor at the time the annuity is purchased from the carrier and benefits are first paid. Nothing in this plan guarantees a participant

(1) a rate of return or interest rate other than that actually earned by the account of the participant, less applicable administrative expenses; or

(2) an annuity based on interest rates or service charges other than interest rates available from and service charges by the annuity payor in effect at the time the annuity is paid.

* Sec. 105. AS 39.35.940(c) is amended to read:

(c) Each eligible member who elects to participate in the defined contribution retirement plan shall have transferred to a new account the employee contribution account balance held in trust for the member under the defined benefit retirement plan of the public employees' retirement system. A matching employer contribution shall be made on behalf of that employee to the new account. The employer shall make the matching contribution from funds other than the trust funds of the defined benefit retirement plan established under AS 39.35.095 - 39.35.680. The amount of the matching employer contribution shall be subject to, and may not exceed, the limitation of 26 U.S.C. 415(c) during the applicable limitation year as defined by AS 39.35.990. If the matching employer contribution would exceed the limits
during the limitation year in which the transfer occurs, the remaining amount of
the matching employer contribution shall be made in the next limitation year, if
the limits would not be exceeded.

* Sec. 106. AS 39.35.940(d) is amended to read:

(d) Upon a transfer, all membership service previously earned under the
defined benefit retirement plan shall be nullified for purposes of entitlement to a future
benefit under the defined benefit retirement plan but shall be credited for purposes of
determining vesting in employer contributions under AS 39.35.790(b) and
eligibility to elect medical benefits under AS 39.35.870. Membership service allowed
for credit toward medical benefits does not include any service credit purchased for
employment by an employer who is not a participating employer in this chapter.

* Sec. 107. AS 39.35.940(h) is amended to read:

(h) An employee who is eligible to elect transfer to the defined
contribution retirement plan must make the election not later than 12 months
after the first day of the month following the administrator's receipt of the
notification that the employee's employer consents to transfers of its employees
under (i) of this section. The election to participate in the defined contribution
retirement plan must be made in writing on forms and in the manner prescribed by the
administrator. Before accepting an election to participate in the defined contribution
retirement plan, the administrator must provide the employee planning on making an
election to participate in the defined contribution retirement plan with information,
including calculations to illustrate the effect of moving the employee's retirement plan
from the defined benefit retirement plan to the defined contribution retirement plan as
well as other information to clearly inform the employee of the potential consequences
of the employee's election. An election made under this subsection to participate in the
defined contribution retirement plan is irrevocable. Upon making the election, the
participant shall be enrolled as a member of the defined contribution retirement plan,
the member's participation in the plan shall be governed by the provisions of
AS 39.35.700 - 39.35.990, and the member's participation in the defined benefit
retirement plan under AS 39.35.115 shall terminate. The participant's enrollment in the
defined contribution retirement plan shall be effective the first day of the month after
the administrator receives the completed enrollment forms. An election made by an eligible member who is married is not effective unless the election is signed by the individual's spouse.

*Sec. 108.* AS 39.35 is amended by adding new sections to read:

**Sec. 39.35.957. Designation of eligible employees, agreement to contribute, and amendment of participation.** (a) A political subdivision or public organization participating in the defined contribution retirement plan under AS 39.35.700 - 39.35.990 shall designate the departments, groups, or other classifications of employees eligible to participate in the plan and, by participating, shall legally be presumed to have agreed to make contributions each year in the amounts required for members of the plan under AS 39.35.750.

(b) If the employer does not participate in the defined benefit retirement plan under AS 39.35.095 - 39.35.680, an employee who is eligible under (a) of this section and who is a member of the defined benefit retirement plan under AS 39.35.095 - 39.35.680 does not accrue credited service or make contributions under that defined benefit retirement plan, but shall be a member of the defined contribution retirement plan under AS 39.35.700 - 39.35.990 and make contributions under that plan.

(c) An employer may request to amend its participation in the plan to add or exclude departments, groups, or other classifications of employees by filing a resolution as provided by AS 39.35.950 or 39.35.955 with the administrator.

**Sec. 39.35.958. Termination of participation in the plan.** (a) A political subdivision or public organization may request that its participation in the plan be terminated. The request may be made only after adoption of a resolution by the legislative body of the political subdivision and approval of the resolution by the person required by law to approve the resolution, or, in the case of a public organization, after adoption of a resolution by the governing body of that public organization. A certified copy of the resolution shall be filed with the administrator.

(b) If contributions are not transmitted to the plan within the prescribed time limit, the administrator may grant an extension and shall assess interest on the outstanding contributions at the rate established under AS 39.35.610. If the political subdivision or public organization is in default at the end of the extension,
participation in the plan is terminated, and the political subdivision or public organization shall be sent notice of termination.

    (c) When an employer's participation in the plan is terminated, or when an employer terminates coverage of a department, group, or other classification of employees under AS 39.35.957(c), the administrator shall assess the employer a termination cost that the administrator determines is actuarially required to fully fund the costs to the plan for employees whose coverage is terminated, including the cost of providing the employer's share of retiree health benefits under AS 39.35.880, occupational disability and occupational death benefits under AS 39.35.890 and 39.35.892, and pension benefits elected under AS 39.35.890(h)(2).

    (d) An employee whose coverage under the plan is terminated as a result of termination of an employer's participation under this section or amendment of the employer's agreement under AS 39.35.957(c) shall be considered fully vested in employer contributions under AS 39.35.790(b) and in the individual account established for the employee under AS 39.30.730. If the employee is later employed with a participating employer, the employee's membership service earned under the plan during employment with a terminated employer shall be credited for purposes of determining vesting in employer contributions under AS 39.35.790(b) and eligibility for medical benefits under this chapter and AS 39.30.300 - 39.30.495.

    (e) An employer terminating participation in the plan shall pay termination costs determined by the administrator, or enter into a payment plan acceptable to the administrator, within 60 days after the employer receives notice of its termination costs from the administrator. Termination costs not paid within the prescribed time limit or in accordance with the approved payment plan shall be collected by the administrator in accordance with AS 39.35.610(b). Termination of participation by an employer in the plan does not bar future participation by the employer if the employer has paid in full its prior termination costs.

    (f) A political subdivision or public organization considering or requesting termination from the plan shall pay the cost associated with obtaining a termination cost study associated with the employer's termination.

* Sec. 109. AS 39.35 is amended by adding a new section to read:
Sec. 39.35.972. Special rules for treatment of qualified military service.

Notwithstanding any contrary provisions of AS 39.35.700 - 39.35.990, with respect to qualified military service, contributions shall be made and benefits and service credit shall be provided in accordance with 26 U.S.C. 414(u).

*Sec. 110.* AS 39.35.990(7) is amended to read

(7) "compensation"

(A) means

(i) the total remuneration earned by an employee for personal services rendered, including cost-of-living differentials, as reported on the employee's Federal Income Tax Withholding Statement (Form W-2) from the employer for the calendar year;

(ii) the member contribution to the public employees' retirement system under AS 39.35.730, employee deferrals under AS 39.45.010, the wage reduction amount contributed to the Alaska Supplemental Annuity Plan under AS 39.30.150(a), and the wage reduction amount contributed to the Alaska Supplemental Benefit Plan under AS 39.30.150(c), as those statutes may be amended from time to time;

(B) does not include retirement benefits, severance pay or other separation bonuses, welfare benefits, per diem, expense allowances, workers' compensation payments, payments for leave not used whether those leave payments are scheduled payments, lump-sum payments, donations, or cash-ins, any remuneration contributed by the employer for or on account of the employee under this plan or under any other qualified or nonqualified employee benefit plan, or any remuneration not specifically included above which would have been excluded under 26 U.S.C. 3121(a) (Internal Revenue Code) if the employer had remained in the Federal Social Security System [, OR ANY REMUNERATION PAID BY THE EMPLOYER IN EXCESS OF THE SOCIAL SECURITY TAXABLE WAGE BASE FOR THE CALENDAR YEAR];

(C) notwithstanding (B) of this paragraph, includes any amount
that is contributed by the employer under a salary reduction agreement and that
is not includible in the gross income of the employee under 26 U.S.C. 125,
132(f)(4), 402(e)(3), 402(h)(1)(B), or 403(b) (Internal Revenue Code); the
annual compensation limitation for the member, which is so taken into account
for those purposes, may not exceed $200,000, as adjusted for the cost of living
in accordance with 26 U.S.C. 401(a)(17)(B) (Internal Revenue Code), with the
limitation for a fiscal year being the limitation in effect for the calendar year
within which the fiscal year begins;

* Sec. 111. AS 39.35.990(16) is amended to read:

(16) "member" or "employee" means a person who is eligible to
participate in the plan and who is covered by [AN EMPLOYEE OF AN
EMPLOYER OR FORMER EMPLOYEE OF AN EMPLOYER WHO RETAINS A
RIGHT TO BENEFITS UNDER] the plan, including the governor, the lieutenant
governor, and a member of the legislature, but does not include full-time or part-
time instructors of the Department of Labor and Workforce Development and the
Department of Education and Early Development in positions that require a
teaching certificate;

* Sec. 112. AS 39.35.990(20) is amended to read:

(20) "peace officer" or "fire fighter" means an employee occupying a
position as a peace officer, chief of police, regional public safety officer,
correctional officer, correctional superintendent, fire fighter, fire chief, or
probation officer, but does not include a village public safety officer employed by
a village public safety officer program established under AS 18.65.670 [HAS THE
MEANING GIVEN IN AS 39.35.680];

* Sec. 113. AS 39.45.020 is amended by adding a new subsection to read:

(d) The administrator of a deferred compensation program under this chapter
has the powers and duties with regard to the program as set out in AS 14.25.003 and
14.25.004, as though those provisions applied to the program.

* Sec. 114. AS 39.45 is amended by adding a new section to read:

Sec. 39.45.055. Appeals. A final decision made under AS 39.45.010 -
39.45.060 is subject to appeal under AS 44.64.
* Sec. 115. AS 44.64.030(a) is amended by adding new paragraphs to read:

(35) AS 14.25.175 (waiver of adjustments under teachers' defined benefit plan);

(36) AS 39.30.165 (supplemental benefits system);

(37) AS 39.30.335 (teachers' and public employees' health reimbursement arrangement plan);

(38) AS 39.35.522 (waiver of adjustments under public employees' defined benefit plan);

(39) AS 39.45.055 (public employees' deferred compensation program).

* Sec. 116. (a) AS 14.25.045, 14.25.340(b), 14.25.570; AS 39.35.050(a), 39.35.370(k), 39.35.615(d), 39.35.615(f), 39.35.620(c), 39.35.620(f), 39.35.620(h), and 39.35.730(b) are repealed.

(b) AS 39.35.375(f) is repealed.

(c) Sections 15 and 91, ch. 9, FSSLA 2005, are repealed.

* Sec. 117. The uncodified law of the State of Alaska is amended by adding a new section to read:

EMPLOYER CONTRIBUTIONS FOR FISCAL YEAR 2008 FOR OCCUPATIONAL DISABILITY AND OCCUPATIONAL DEATH BENEFITS IN THE TEACHERS' DEFINED CONTRIBUTION RETIREMENT PLAN. Notwithstanding AS 14.25.350(e), enacted by sec. 20 of this Act, for fiscal year 2008, the employer contribution to fully finance the cost of providing occupational disability and occupational death benefits under AS 14.25.485 and 14.25.487 shall be equal to 0.62 percent of the amount of compensation paid to all teachers who work for the employer in that year and are members of the teachers' defined contribution retirement plan.

* Sec. 118. The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSFER OF FUNDS TO ALASKA RETIREE HEALTH CARE TRUSTS. The commissioner of administration shall transfer to the Alaska retiree health care trusts established under AS 39.30.097, enacted by sec. 50 of this Act, all funds for payment of retiree health benefits that have been deposited in the group health and life benefits fund.
under AS 39.30.095, including funds in the retiree health insurance fund, and all funds from any fund or account into which funds for provision of retiree health benefits have been deposited. The commissioner of administration shall make the transfer on July 1, 2007, or immediately after July 1, 2007, when the funds become available to the commissioner for transfer.

* Sec. 119. Sections 5, 6, 17, 60, 68, 69, 81, and 116(b) of this Act take effect July 1, 2010.

* Sec. 120. Except as provided in sec. 119 of this Act, this Act takes effect immediately under AS 01.10.070(c).