



The Local Tier 1 Option

## The Local Tier 1 Option



2020

Retirement Systems of Alabama



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### ACT 2019-132: The Local Tier I Option

- Act 2019-132 (codified at *Ala. Code* 36-27-6.5) allows a local employer that participates in ERS to elect to provide Tier I retirement benefits to the employer's Tier II employees.

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### ERS Local Tier I and Tier II Benefit Comparison

	Tier I	Tier II
<b>Date of Employment</b>	Prior to January 1, 2013	On or after January 1, 2013
<b>Member Contribution Rate</b>	<ul style="list-style-type: none"> <li>5% or 7.5% for Regular Employees</li> <li>6% or 8.5% for FLC Employees</li> </ul>	<ul style="list-style-type: none"> <li>6.0% for Regular Employees</li> <li>7.0% for FLC Employees</li> </ul>
<b>Retirement Eligibility</b>	<ul style="list-style-type: none"> <li>25 years of service at any age (30 years for local units that have not adopted Act 88-548)</li> <li>At least 10 years of service at age 60</li> </ul>	<ul style="list-style-type: none"> <li>No 25-year or 30-year retirement</li> <li>At least 10 years of service at age 62 (age 56 for FLC Employees)</li> </ul>
<b>Retirement Factor</b>	<ul style="list-style-type: none"> <li>2.0125%</li> </ul>	<ul style="list-style-type: none"> <li>1.650%</li> </ul>
<b>Disability Retirement</b>	No Change	New disability standard



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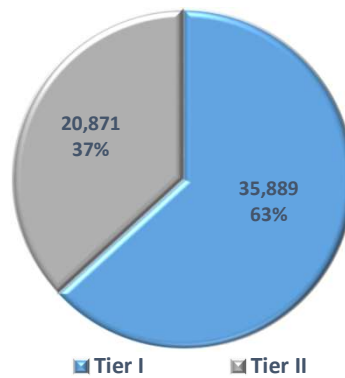
### ERS Local Tier I and Tier II Benefit Comparison

	Tier I	Tier II
<b>Average Final Salary</b>	Average of the highest three years of the last ten years	Average of the highest five years of the last ten years
<b>Benefit Cap</b>	None	80% of Average Final Salary (Approx. 48 yrs & 6 mos to get to cap)
<b>Retirement Contributions on Overtime Pay</b>	Earnable Compensation cannot exceed 120% of base pay	Earnable Compensation cannot exceed 125% of base pay
<b>Sick Leave Conversion</b>	Yes	No
<b>FLC Bonus Year Bonus</b>	Yes	No



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## ERS Local Active Members by Tier As of 9/30/18



56,760 Total Active Members

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## Making an Election

- Local employers may elect to provide Tier I benefits to Tier II employees by adopting a resolution to do so by May 8, 2021.
- Such election is irrevocable.
- Sample resolutions for employers are available on RSA's website.

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## Plan to Increase Tier 1 Member Rates

- If the employer making an election has not increased the Tier I member rates as provided by Act 2011-676 (from 5% to 7.5% for regular employees and from 6% to 8.5%), the employer must submit a plan to ERS to increase these rates.
- The form for this plan is available on RSA's website.

# Tier 1



## ERS Board Review of Elections

- The ERS Board may deny an employer's election based on a staff review of the employer's historical compliance with ERS requirements and the employer's financial stability.



## Effective Date

- An employer who elects to provide Tier I benefits to Tier II employees will be responsible for paying the increased employer rates for these benefits.
- The cost for each local employer will vary.
- Estimates of the cost for each employer have been posted to the Employer Self-Service (ESS) portal.



## Employer Cost

- An employer's election to provide Tier I benefits to Tier II employees will be effective the beginning of the fiscal year following the date the resolution is received by ERS.
- All Tier II service of the employer's Tier II employees on that date will be converted to Tier I service.



## Tier II Member Contribution Rate

- Tier II employees of employers who make an election to provide Tier I benefits must contribute 7.5% (regular employees) or 8.5% (FLC employees).



## Questions?

