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# **PERA & Section 125 Plans**

**Colorado  
Public  
Employees'  
Retirement  
Association**

Revised May 2009

## Section 125 and TEA Plan Participation

Section 125 of the Internal Revenue Code allows an employer to establish a “flexible spending account” program for its employees. Many PERA-affiliated employers have opted to implement these programs.

A Section 125 program allows you to direct a portion of your salary to purchase benefits such as health and dental care, life insurance, or child care. These plans are sometimes called cafeteria plans. Some employers also provide a reduction in salary for commuter and parking expenses in accordance with the Transportation Equity Act (TEA).

## How Participation May Affect Your PERA Account

Participating in a Section 125 or a TEA deduction plan may reduce the salary on which you pay federal and state income tax. Likewise, the money for these plans is not included in the salary on which your PERA contributions are calculated.

This lowering of your PERA salary reduces the amount of the contributions you make monthly to your PERA member contribution account. *Note:* tax-deferred contributions to PERA’s 401(k), 403(b) tax-sheltered annuities/403(b) (7) custodial accounts, or 457 governmental deferred compensation plans do not reduce PERA salary or your HAS.

- If you have an unexpected event, such as your death or disability, participation in a Section 125 plan or a TEA deduction plan will reduce the benefit paid. You may want to weigh the impact this reduction would have on you or your survivors against the value of the reduction in taxes and PERA contributions that results from Section 125 or TEA plan participation.
- If your monthly salary is very low, participating in a Section 125 plan or TEA deduction plan could affect the amount of PERA service credit you earn in a month. You receive a month of service credit for each month of employment if your earned salary is greater than or equal to 80 times the federal minimum wage hourly rate in effect at the time of service. Since the minimum wage currently is \$6.55, a monthly salary of \$524 (80 × \$6.55), on which you make PERA contributions, is necessary to earn one month of service credit. If you are in a Section 125 or a TEA plan and, as a result, your monthly salary falls below \$524, then you would not earn full service credit. This may affect how soon you would be able to retire and the amount of any retirement benefit.

### **How Participation May Affect Your Future PERA Benefit**

Most PERA benefits you or your survivors receive will be calculated using your Highest Average Salary (HAS). HAS is one-twelfth of the

average of the highest salaries on which PERA contributions were paid that are associated with three periods of 12 consecutive months of service credit. The three 12-month periods do not have to be consecutive or your last three years of employment.

- If the salaries used to calculate your HAS are from the 12-month periods in which you reduced your salary to participate in a Section 125 or TEA plan, the PERA benefit amount paid will be lower than if you were not participating in a plan.

The example below illustrates the difference in the Option 1 benefit amount based on participation in a Section 125 plan for a member who plans to retire at age 60 with 20 years of service credit. The member contributed \$150 per month to a Section 125 plan during the three 12-month periods used to calculate the HAS.

	No Participation in a Section 125 Plan	Participation in a Section 125 Plan
HAS:	\$2,200	\$2,050
Option 1:	\$1,100	\$1,025
Salary Reduction:	N/A	\$150
Option 1 Difference:	N/A	\$75

- If you previously participated in a Section 125 plan and stop participation, your PERA-includable salary could increase more than the annual salary increase limitation (8 or 15 percent depending on when you began PERA membership).

- Your benefit increases after retirement are based on your initial benefit amount and will be less if your HAS was lowered due to participating in a Section 125 or TEA deduction plan.

## **Planning For Retirement**

If you are nearing retirement, take time to evaluate whether or not you should participate in a Section 125 or a TEA plan during the years that salary will be included in the HAS calculation. For more information, contact PERA's Customer Service Center.

## For More Information

- Visit PERA's Web site at [www.copera.org](http://www.copera.org).
- Write to PERA at PO Box 5800, Denver, Colorado 80217-5800. Please include your Social Security number with requests for personal information.
- Call PERA at 303-832-9550 or 1-800-759-PERA (7372).
- Visit the PERA offices at 1301 Pennsylvania Street in Denver or in Westminster at 1120 West 122nd Avenue.

This brochure provides brief information for PERA members about the effect of Section 125 flexible spending plans on PERA benefits. Your rights, benefits, and obligations as a PERA member are governed by Title 24, Article 51 of the Colorado Revised Statutes, and the Rules of the Colorado Public Employees' Retirement Association, which take precedence over any interpretations in this brochure.

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