



**COLORADO  
PERA®**

**Personal.  
Innovative.  
Secure.**

# **PERA & Section 125 Plans**

**Colorado  
Public  
Employees'  
Retirement  
Association**

Revised June 2010

If you were employed by the Denver Public Schools (DPS) prior to January 1, 2010, and you participated in a Section 125 or TEA Plan, your deductions were included in your salary for purposes of calculating your Highest Average Salary (HAS). As of January 1, 2010, your deductions will not be included in your salary and therefore will lower the salary used to calculate benefits. Please read this brochure carefully to understand how this change will impact your benefits.

## **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 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. Therefore, this lowering of your salary reduces the amount of the contributions you make 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 your salary or your HAS.

If your monthly salary is very low, participating in a Section 125 plan or TEA deduction plan could affect the amount of 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 \$7.25, a monthly salary of \$580 ( $80 \times \$7.25$ ) on which you make 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 \$580, 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 Benefit**

Most benefits you or your survivors receive will be calculated using your Highest Average Salary (HAS).

#### **PERA Benefit Structure Highest Average Salary**

Under the PERA benefit structure, 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.

#### **DPS Benefit Structure Highest Average Salary**

If you are eligible to retire under the DPS benefit structure on January 1, 2011, HAS is the average monthly salary of the 36 months of earned service having the highest salaries.

If you are not eligible to retire under the DPS benefit structure on January 1, 2011, HAS is one-twelfth of the average of the highest annual 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.

### **Participating in a Section 125 or TEA Plan**

If you participate in a Section 125 or TEA Plan, and:

- You have an unexpected event, such as your death or disability, the benefit paid will be reduced. 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 contributions that results from participation.
- The salaries used to calculate your HAS are from months when you were participating, the retirement benefit amount paid will be lower than if you were not participating.

The example below illustrates the difference in the PERA Option 1 or DPS Option A benefit amount based on participation in a Section 125 plan for a member who plans to retire at age 60 with 25 years of service credit. The member contributed \$150 per month to a Section 125 plan during the months 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/A:	\$1,375	\$1,281
HAS Difference:	N/A	\$150
Option 1/A Difference:	N/A	\$94

- If you stop participation, your salary could increase more than the HAS annual salary increase limitation of 8 or 15 percent, whichever is applicable to you. If you are eligible to retire under the DPS benefit structure on January 1, 2011, there is no annual salary increase limit applied to your HAS.
- Your HAS was lowered due to participation, any benefit increases granted after retirement will be less because they are based on your initial benefit amount when you retire.

## **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 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.

**Colorado Public Employees' Retirement Association**

**Mailing Address:** PO Box 5800, Denver, CO 80217-5800

**Office Locations:** 1301 Pennsylvania Street, Denver  
1120 W. 122nd Avenue, Westminster  
303-832-9550 • 1-800-759-7372

[www.copera.org](http://www.copera.org)

5/46 (REV 6-10) 5M



Printed on recycled paper