



TOPICS

Board Approves Employers Making 401(k) Deductions/Changes Directly from Member

At its March meeting, the PERA Board of Trustees approved a request from the staff to change the procedures relating to the initiation of 401(k) Plan contributions and subsequent changes in those contributions. The new 401(k) procedure, contained in a change to the document governing PERA's 401(k) Plan, allows plan participants or enrollees to advise their employers directly of the contribution amount they want deducted from their pay and contributed to their 401(k) account. The change is effective immediately.

Until now, a member had to send an *Enrollment* or *Change Form* to PERA with the amount to be deducted from her or his pay. Then, the information was entered into the recordkeeping system and a letter was sent to the employer advising the employer of the new amount. Sometimes the letter from PERA advising the employer of the contribution or the change arrived at the employer's payroll office too late for a payroll deduction to be taken or changed for that month; this frequently resulted in the employee being unhappy with both PERA and the employer.

The new procedure allows the member to give a completed *401(k) Contribution Authorization Form* directly to the employer. The form has a space for the member to specify the percent of pay or the dollar amount the member wants deducted from his or her pay. The member still must send an enrollment form to PERA to provide instructions on how the contributions are to be invested and to provide beneficiary information. PERA will not need to be notified if the 401(k) participant just wants to change his or her contribution amount.

Employers can begin using the new *401(k) Enrollment/Authorization Form* immediately as a replacement for a form an employee may have that is now obsolete. Employers are asked to remind employees beginning participation in the 401(k) Plan to send the *Enrollment Form* to PERA after the contribution authorization portion of the form has been removed. (PERA is sending each payroll office copies of the form, based on the number of PERA members for each employer.)

Prior to recommending the change to the Board, PERA staff discussed this proposal with a number of employers and received overwhelming favorable reception for the idea. Here are some questions that employers may have regarding the proposal with PERA's response.

Q. What does the new 401(k) Contribution Authorization Form For Employers look like?

A. Here is a sample of what the form will look like; it will be the bottom one-third of the *Enrollment Form*. The member who is enrolling will send the top portion of the form to PERA.

401(k) PLAN CONTRIBUTION AUTHORIZATION FORM FOR EMPLOYER

Complete all information, separate at perforation, and deliver this form to your payroll office; make copies for any other employers who will be deducting contributions. **Do not send this portion of the form to PERA.**

Name _____
Last First M.I. SSN _____

Address _____
Street, Route, or Box Number City State ZIP Code Work Phone _____

I request a PERA 401(k) Plan monthly contribution of _____% (whole percentage) or \$_____ (whole dollar) to be deducted from my pay. This amount must be between 1 and 23 percent of gross compensation (salary plus Section 125 plan account deductions) not to exceed \$10,000 annually.

Signature _____ Date _____

Q. When does the change occur?

A. Employers should begin taking new contributions and making contribution changes immediately. There will be a period of time that PERA will receive the now obsolete form from a member to enroll or make a change. In those cases, we will—for the time being—follow the instructions of the member and use the procedure that has been in place for several years.

Q. Will PERA provide 401(k) contribution change forms?

A. We are not intending to create or stock any contribution change forms. Rather, employers may devise their own form or use an existing form that is used to make changes to other types of payroll deductions. This form should not be sent to PERA. PERA has removed the contribution information from the enrollment form and the *401(k) Plan Change Form*.

Q. Does the employer need to retain the Authorization Form?

A. That is up to the employer. It might be appropriate to retain the form at least a few weeks after the first contributions are taken in case there is any dispute by the participant.

Q. Does the employer need to advise PERA that they are beginning to take deductions or suspending deductions for a member, or that a change in the deduction amount is being made?

A. No, special reporting is not needed. PERA will obtain that information through the monthly *401(k) Contribution Report* that employers send to us. However, we encourage employers to remind the member to send the *401(k) Plan Enrollment Form* to PERA so we know how to invest the contributions. If we receive contributions from the employer before we receive information from the member about how to invest these funds, PERA will invest them in a default fund.

Q. Will the employer need to keep the 401(k) Tax Deferral Worksheet?

A. No. Since January 1, 1998, a member no longer sends the Worksheet to PERA. The Worksheet is just that—a device for the member to use to determine how much she or he can contribute to the 401(k) Plan (and to other tax-deferred plans) without exceeding the amount allowed by federal law. The Worksheet should not be sent to PERA or the employer.

Q. Will PERA also be changing contribution amounts if a member requests?

A. PERA will make changes for a while, but eventually we will send any contribution change or authorization form we receive to the employer.

Q. Are there any limits on the number of changes a 401(k) participant can make in his or her contributions?

A. No, a 401(k) member can change his or her contributions on a monthly basis.

Q. Who is responsible for making sure employees do not overcontribute to the 401(k) Plan?

A. PERA encourages employers to check the contribution amounts to be sure they do not exceed the 23 percent of salary limit or the annual \$10,000 limit. If contributions are sent to PERA that exceed these limits, PERA will notify the employer of the excess contribution and either send the money back to the employer or ask the employer to reverse the amount on the next contribution report. Due to the delay in receiving the contribution information, PERA will not discover the excess contributions until a few weeks after the deduction has been taken from the member's paycheck. If found at the end of the calendar year, this may result in an employer having to adjust a member's W-2 if it has already been issued. To avoid this problem, employers can pre-edit the contribution amounts to be sure they do not exceed the limits.

Publication Update — Mailed to Payroll & Personnel Offices with TOPICS:

Information for New PERA Members (5/53 REV 3-98): This brochure was redesigned and updated. Please destroy any previous versions you may have on hand. PERA will send this brochure to each new member along with 401(k) information, life insurance information, and information about our Web site.

Purchasing Service Credit (5/52 REV 2-98) & *Service Credit Purchase Application* (8/104 REV 2-98) have been combined in the revised version of the brochure. Please throw away any previous versions of the form or brochure that you have.

Retiree Report: The March issue is included for your information.

Recap of PERA Health Care Program Changes for 1998–1999

PERA expanded eligibility conditions for benefit recipients and dependents who want to join the Program after losing previous health care coverage. No longer must the loss of coverage be “involuntary.” Now, a benefit recipient may join or a dependent may be added to coverage outside of open enrollment or other qualifying times if there is any loss of coverage. (For clarification, a loss of coverage does not mean a cancellation of coverage by the participant.)

Kaiser Permanente is expanding into the El Paso County area with a “pre-Medicare” under age 65 plan, which is not its traditional group practice model but a provider network model. PacifiCare is expanding its pre-Medicare and Medicare Risk Plan to Crowley, Fremont, Huerfano, Otero, and Pueblo counties. QualMed is expanding into metro-Denver; converting its Medicare supplement plan to a Medicare risk plan in El Paso, Pueblo, and Teller counties; and is discontinuing services in the San Luis Valley area. Rocky Mountain HMO is expanding into the San Luis Valley.

PERA will send all payroll and personnel offices the new *1998–1999 Health Care Program* brochure when it is published in April. **Notice to payroll/personnel offices who provide their retirees with a health care subsidy in addition to PERA's subsidy:** Be looking for premium information from Emily Copeland at PERA to be sent the last week of March