



# TOPICS

OFFICIAL BULLETIN FOR PERA-AFFILIATED PAYROLL/PERSONNEL STAFF

No. 98-3

## **Unreduced Retirement for 30 Years Service Passes Legislature**

The State Legislature passed an amendment to HB 98-1191 on May 6 that legislators and other proponents viewed as a cost savings move to encourage earlier retirement. Senator Jeff Wells (R-Colo. Springs) introduced the amendment in the Senate near the end of the General Assembly's 1998 session.

The amendment provides for unreduced retirement benefits for members who retire on or after July 1, 1998, with 30 or more years of service at a minimum age of 50. Currently, unreduced benefits are paid at age 55 with 30 years of service. Also, it includes a change in the early retirement reduction factor that is used to calculate PERA benefits. The reduction will be lowered from the current 4% to 3% per year for those retiring on or after July 1, 1998, between ages 55 through 59 with 20 to 29 years of service.

For example, a member with 25 years of service at age 55 who now can retire at 50% of Highest Average Salary (HAS) will be able to retire on or after July 1, 1998, at 53.1%. A member with 30 years of service credit at age 50 who now can retire at 52.5% will be able to retire on or after July 1, 1998, at 75% of HAS. A member with 28 years at age 50 would receive 61.6% of HAS on or after July 1, 1998, rather than the current 49%.

PERA did not initiate the two benefit changes, but did not oppose them. The Board supported the "30-years service at age 50" amendment during the Senate's discussions. The Colorado Association of School Executives and Jefferson County School District were proponents of the amendment. Legislators supporting the amendment anticipate that it will allow employers to save money by increasing retirements and replacing the retiring employees with new employees hired at lower salaries. There are about 5,650 members currently eligible to retire who would be affected by the two changes in the retirement provisions. About 1,800 of them are under age 55 and would be affected by the provision allowing unreduced retirement with 30 years of service at age 50. PERA's actuary estimates that there will be more than \$2.7 million per year in savings to employers. The PERA fund will remain actuarially sound with these changes.

An insert is included showing the new Option 1 HAS percentages if the Governor signs HB 1191 into law. (Note: This bill is not a Rule of 80 combination; rather, it lowers the age for unreduced service retirement from age 55 to age 50 with 30 years of service.)

## **State/School Employer Contribution Rate/Purchase Cost to be Reduced**

House Bill 98-1242, sponsored by Rep. Norma Anderson (R-Lakewood) and Sen. Doug Lamborn (R-Colo.Springs), will lower the employer contribution rate for School and State Division employers by 0.1% of pay. The Governor is expected to sign the bill, which will be effective July 1, 1998. School and state employers should change the contribution rate they pay on PERA-includable salaries for the July contribution-reporting period (the report due to be forwarded to PERA by August 10). The new rate will be 11.4%. Contributions calculated on June salaries should be calculated at 11.5%. **Employers should consider this the official notice to make the change.**

**As a result, the cost to purchase service credit not previously covered by PERA will be reduced effective July 1, 1998.** The new cost will be 18.7% of HAS, versus the current 18.75%. The cost is tied to the member and employer contribution rates; consequently, if the rate is reduced, the cost to purchase service is reduced.

## **House Bill 1171: Substitute Teachers Can Teach More Than 110 Days**

House Bill 1171, sponsored by Rep. Paul Schauer (R-Littleton) and Sen. Don Ament (R-Iliff), allows substitute schoolteachers to work more than 110 school days during the academic year. The Governor signed the bill on March 16, 1998. The bill does not change the provision in law that applies a temporary reduction to retirement benefits of PERA retirees who work more than 110 days per calendar year for a PERA-affiliated employer.

## **Bill Would Expand Pension Portability Options**

Rep. Earl Pomeroy (D-N.D.) and Rep. Jim Kolbe (R-Ariz.) have introduced the Retirement Account Portability Act (RAP) (HR 3503) that will expand pension portability options for government employees, if passed. Members who want this federal legislation to pass may want to contact their U.S. representative.

- ◆ RAP would allow employees to roll over money from 457 and 403(b) plans into IRAs, 401(k), or other retirement plans.
- ◆ RAP would also allow government employees to roll over or perform a trustee-to-trustee transfer of money from their 457 or 403(b) plans to a defined benefit plan to purchase service credit.

## Long-Term Care Program Open Enrollment Extended Until June 30, 1998


PERA members and retirees told us they need more time to evaluate their new long-term care benefit, particularly to talk about it with other eligible family members (spouses, parents, grandparents, and in-laws). Since the next open enrollment period for this important benefit is not expected to be until the year 2000, the PERA Board of Trustees has granted an extension of the open enrollment period through the end of June 1998. This gives PERA-affiliated employers an additional two months to promote what has been called "the benefit of the decade." More than 40,000 requests for information kits have been received to date.


While the Long-Term Care Program is a group plan, there are no additional costs for PERA-affiliated employers. However, the bargaining power of PERA has been used to develop a custom program that offers a broader safety net to our members and retirees, including:


- ◆ Liberal underwriting that enables some PERA members with pre-existing conditions to enroll (this may not be available in the future).
- ◆ Customized benefits that reduce the barriers to accessing care.
- ◆ A "pool of dollars" for more flexibility with home care expenses.
- ◆ Generous lifetime maximums that can be applied to all plan benefits.
- ◆ Daily and monthly benefits that compare favorably with current costs and likely levels of usage.
- ◆ The security of being covered by an A- rated company, which has never imposed a rate hike on its policyholders.


U.S. Care, the Program Manager, is ready to assist you in educating your employees and retirees about this benefit. Representatives are available to make presentations at your worksite and to meet individually with your employees and retirees. To speak with a Benefits Specialist at U.S. Care, call 1-888-PERA-LTC toll-free. Posters and educational materials for your worksite are also available through this number.

### PERAgraphs


 **Life Insurance Arrears Changes:** PERA has changed procedures to notify participants in the Life Insurance Program that their premiums are in arrears. In the past, PERA mailed two notices and a cancellation letter to any member whose premium was late. To streamline the process, only one letter will be sent to the participant when his or her account becomes 30 days in arrears. The letter will notify the participant that the coverage will be canceled if payment of premium is not made. PERA will mail a cancellation letter to employers when a member's coverage is canceled due to non-payment of premium.

 **Life Insurance Multiple Premiums Should Be Paid for Some Members with No Summer Pay:** Employers who have employees enrolled in one of the PERA life insurance plans who will not receive pay during the summer are reminded to submit additional premiums in May for each month that the employee will not be on your normal monthly contribution report during the summer. For example, if the last paycheck is at the end of May and another one won't be issued until September, four premiums should be submitted (for May, June, July and August).

 **Electronic Reporting:** Employers were recently sent a letter and details about reporting electronically to PERA. PERA encourages employers to report via "File Transfer Protocol" (FTP) on the Internet, through a modem if using AS/400 computers, or through tapes and diskettes. If you have Internet access, we especially encourage you to consider using FTP. See the "Employer Section" of our Web site at [www.copera.org](http://www.copera.org) to learn more or call your Employer Representative.


 **401(k) Loans Go Paperless, Board Approves Other 401(k) Changes:** PERA's Board of Trustees has approved a "paperless" process for 401(k) loans effective immediately. With the new procedure, a 401(k) participant who requests a loan from his or her account does not need to return any signed paperwork; negotiating (cashing, depositing, etc.) the loan check will indicate the participant agrees with the terms and conditions of the loan.

Also, the \$50 transaction fee will be deducted from the participant's 401(k) account balance. They will not need to send a check to PERA. Loan repayments for any reason other than home purchase can now be up to 60 months. For loans to be financed more than five years for home purchase, the participant must call or come into PERA, have the loan modeled and submit a copy of the home sales contract.

 **Employers Should Change 401(k) Plan Contributions:** Employers are reminded that they should make changes for participants' contributions to PERA's 401(k) Plan and do not need to advise PERA except through the 401(k) contribution reporting process. Likewise, employers can begin new contributions and stop contributions for an employee without any approval or notification from PERA. New participants will give employers a completed *401(k) Contribution Authorization Form* directly with the amount or the percent of pay (in whole percents or whole dollar amounts) specified on the form. If your employee is a new participant, remind her or him to send the enrollment form with investment and beneficiary information to PERA. Contributions received from a participant who has not advised PERA how to invest the 401(k) funds will be invested in the Money Market Fund until PERA receives notice otherwise.

Members may contribute between 1% and 23% of their PERA-includable salary plus Section 125 deductions, not to exceed \$10,000 in 1998. In April, PERA returned \$35,285 to participants who exceeded the percentage limit in 1997. If the member

participates in other plans in addition to PERA's 401(k) Plan, other limits may apply. Employers should automatically discontinue contributions when a member reaches \$10,000 in contributions. Also, employers should not set their own minimum contribution amount; the plan allows for a minimum of 1% of salary.

 **Health Care Program Changes:** An addendum to the *1998-1999 PERA Health Care Program* brochure is being sent with all orders to explain changes that have occurred since the brochure was printed. Here are some of the addendum items:

- ◆ Rocky Mountain HMO is available in western Moffat County, not eastern Moffat County.
- ◆ Prowers Medical Center (Lamar) is in the QualMed HMO non-Medicare and Medicare supplement network.
- ◆ PacifiCare is offering both a Medicare Supplement Plan and Senior Horizons, a Medicare risk plan, in Weld County. The brochure says that only Senior Horizons will be offered there.

In case you were unable to attend one of the Health Care Program meetings, here are some of the major Program changes:

- ◆ QualMed HMO is being added to the metro-Denver area, including Boulder and Clear Creek counties.
- ◆ PacifiCare HMO is being added to Pueblo, Fremont, Crowley, Huerfano, Otero, and Teller counties.
- ◆ Rocky Mountain HMO is expanding to the San Luis Valley; QualMed HMO is discontinuing service there.
- ◆ Kaiser Permanente is expanding into El Paso County with a network model, "pre-Medicare" plan only.


 **Publication/Form Changes:** Since the last *TOPICS* in March, only a few publications have been revised.


◆ The *1998-1999 PERA Health Care Program* brochures, mailed to employer payroll and personnel offices in April, do not have summaries of benefits for the non-Medicare plans. Instead, Health Care Plan Descriptions in the format specified in state regulations and provided by the various carriers in the Program are being sent with the brochure.

◆ A paragraph has been added to the *Disability Retirement Application* to inform members considering applying for disability retirement that the program will change on January 1, 1999, and that any application received after December 31, 1998, will be considered under the new program rules. If you have some old forms on hand, you may want to reorder a few new ones until we have a major change at the end of the year.

◆ An addendum is being printed for all 401(k) brochures being sent to those inquiring about the Plan. The current version of the 401(k) brochure has not been revised since last year, so some of the information needs to be updated. Printing of the new brochure will occur after further consideration about possibly adding an additional equity fund manager.

◆ *Informacion para Nuevos Miembros de PERA*—The Spanish version of *Information for New PERA Members* may be ordered for those employers who use this brochure.

 **Employer Manual:** We apologize for delays in getting the new *Employer Manual* to you. The final reviews and changes are being made to it. We aren't giving a date when it will be mailed, but any training will not be early in the summer as we previously announced.

 **PERA Rates of Return:** PERA achieved a 20.1% rate of return on its investments in 1997, resulting in a 14.6% annualized return for the past five years.

## **Disability Benefits Program Being Developed**

As a result of legislation in 1997, a new disability program is being developed by PERA that will include both disability retirement benefits and short-term disability benefits. The short-term benefits will be available to vested members who are incapacitated from performing the essential functions of the member's job with reasonable accommodation as required by federal law, but who are not totally and permanently incapacitated from regular and substantial gainful employment. In other words, the disability would be from an illness or injury that is not expected to be permanent, or for which rehabilitation or retraining can be used to return the claimant to the workforce.

The Program will provide reasonable income replacement, or rehabilitation or retraining services, or a combination of both for a period up to 22 months. The program will apply to all applications received on or after January 1, 1999, if the effective date is before January 1, 1999. Similarly, applications received before January 1, 1999, will be processed in accordance with current law even if the effective date is after January 1, 1999. The questions below and on the next page have come from employers.

### ***Q. Who will administer the program?***

A. Standard Insurance Company, a highly-respected and long-time disability insurance manager that already works with many PERA employers, is the disability program administrator. However, applications will need to be sent to PERA for initial processing to ensure that the applicant meets certain eligibility requirements.

### ***Q. How soon will the short-term disability benefits begin?***

A. The benefits can begin 60-calendar days after the disability begins. Employees will probably have some sick or other type of leave available to them for that first 60-day period.

### ***Q. Will the benefit be taxable to the employee?***

A: Yes, the entire income replacement (short-term) benefit is taxable since the premiums are paid by PERA's trust fund.

***Q: What happens if the employee is not permanently disabled under the PERA definition after 22 months?***

A: The income replacement benefit will cease. If the employer does not re-employ the member, Standard Insurance will do out-placement to try to help the employee get a job.

***Q: Must the member terminate employment to apply for the short-term disability benefit?***

A: PERA will not require that a member terminate employment; each employer must develop its own policy regarding whether they will allow the member to be on a certified leave of absence. Termination is still required for disability retirement.

***Q: Can an employee move from Short-Term to Disability Retirement?***

A: Yes, if the employee is determined to be permanently and totally disabled from regular and substantial gainful employment. Actually, this determination could be made at any time during the 22-month period, or at the time of application.

***Q: Is there a cap on the income replacement benefit?***

A: Yes. The cap will be determined by the program administrator up to 60% of PERA-includable salary. This cap is reduced by taking into consideration other payments received by the member so the member will not be paid more than 100% of his or her salary from all sources. The income replacement benefit will be offset for paid-leave, workers' compensation, and other payments. For example, if workers' compensation is paying 60% of the worker's pay, Standard Insurance will reduce the income replacement benefit to 40%.

***Q: What about communications with the employees and the employer?***

A: The employee can apply directly with PERA, however, PERA will advise the employee to contact his or her employer's HR office. PERA must get information (work status, when off job, job duties, accommodations made, etc.) from the employer, and Standard Insurance will need to contact the employer as well.

***Q: Will the employer costs go up to pay for this program?***

A: No, the premium comes out of the PERA trust fund. Neither employer nor member contribution rates will increase. It is expected that by closer scrutiny and better delineation of short-term disability vs. disability retirement the costs to PERA may decrease over time. Currently, a disability retiree who is able to return to work still receives a PERA disability retirement benefit. That situation will change under the new two-tier program.

***Q: What about pregnancies?***

A: They are not excluded, but there is a 60-calendar-day waiting period before benefits may start.

***Q: Can an employee be removed from the PERA disability retirement program even though he or she had to terminate employment to receive benefits?***

A: Yes. Unlike the current program, members who receive a disability retirement benefit (for which they applied for on or after January 1, 1999) who are found to be no longer incapacitated from regular and substantial gainful employment will have their benefits terminated.

***Q: What about non-vested employees, i.e., those with less than five years of service credit, and substitute teachers?***

A: Members with less than five years of service are not covered by the new benefit. Substitutes are covered under PERA and earn service credit like any other PERA member. They would be eligible after earning five years of service credit.

***Q: What if the employee dies while on Short-Term or Disability Retirement?***

A: For short-term disability, the benefit will end upon the member's death, and regular PERA survivor benefit coverage may be applicable, depending on the member's status.

For disability retirement, the member selects how to handle the disposition of the benefit; the member selects either a single or joint-life benefit option during the retirement process.

***Q: How long will Standard monitor permanently disabled employees?***

A: As long as the company deems it necessary, based on the medical and/or psychological condition of the member.

***Q: While on short-term disability, what will be the employee's status with PERA?***

A: While the member is on short-term disability, membership will continue. Therefore, the member's rights, e.g. survivor benefits, life insurance, etc., will continue and the member cannot withdraw his other account. However, the member will be allowed to participate in PERA's Health Care Program while receiving short-term disability benefits.

***Q: If the member is eligible for retirement, will he or she be eligible for this program?***

A: No, just like provisions for disability retirement benefits, the member is not eligible for short-term disability if he or she is eligible for service retirement.

***Don't forget to look us up on the Web—[www.copera.org](http://www.copera.org)  
Be sure to let your employees know, too.***