



# TOPICS

OFFICIAL BULLETIN FOR PERA-AFFILIATED PAYROLL/PERSONNEL STAFF

No. 99-1

## **Payments from E&L, Similar Plans Determined Not Includable As PERA Salary**

The PERA Board has determined that Experience & Longevity (E&L) and other similar compensation plans that have been allowed over the last few years, in practice, operate as retirement inducements. Payments made under these plans will not be included in salary for PERA purposes for new plan participants.

The following is the motion that was approved by the Board at its January 15, 1999, meeting:

“Payments made under the provisions of existing Experience and Longevity plans, Career Longevity Stipend plans, and any similar plan regardless of title, are to be excluded from PERA salary for any future participants as of today.

PERA members currently receiving such plan payments that are being treated as salary for PERA purposes will continue to have such payments treated as PERA salary to the conclusion of their individual participation in the plan.

PERA members who become participants and begin receipt of payments under such plans before December 31, 1999, will be given an administrative opportunity, on an individual basis, to show cause why their payments under these plans should be salary for PERA purposes.

Any payments under any such plan not currently in operation but which may be adopted by a PERA affiliated employer in the future likewise will be excluded from PERA salary.”

This action did not involve changing any rule or law. Rather, the plans had been approved under the condition that they were not retirement inducements. Now the Board has seen that the plans are, in practice, retirement inducements, and it had to comply with state law that does not allow contributions to be accepted on payments that are retirement inducements.

PERA has information on 27 school districts that sponsor this type of compensation plan. These plans typically have payments equal to 10 to 15 percent of salary each year for three years, then payments are stopped. While these plans do not have a specific agreement that the member will retire at the end of the three years of E&L participation, data shows that E&L participants retire in larger numbers than non-E&L members. It has not been uncommon for the PERA staff to receive letters and comments from current participants or those wanting to participate in a plan who call them “early retirement plans.”

PERA’s actuary studied the experience of these plans and found that participants in these plans retired at a much higher rate than other members with the same age and years of service. This actuarial review compared rates of retirement for similarly situated PERA members to the rates of retirement for such plan participants. Since the rates of retirement for such plan participants were significantly greater than non-participants, the Board concluded that these plans operate as retirement inducements. (State law prohibits accepting contributions on any payment that is a retirement inducement.)

PERA has notified employers who have plans of this action and that contributions are not to be made on E&L payments for new participants, without approval by PERA on an individual basis as described above. Employers should continue to submit contributions on members who are already participating in the plans.

As fiduciaries of the PERA trust funds, the PERA Board must act in the best interests of all PERA members and benefit recipients consistent with state law. In this regard, the Board must act to protect the fund from any administrative practices among employers that may provide benefits beyond those that have been funded through contributions and investment earnings on those contributions. Compensation plans that result in greater than expected retirement rates among plan participants result in greater than expected pension liabilities, which can jeopardize the soundness of the fund for all members.


PERA is not advising employers that they cannot have these plans. Employers may continue to provide these to their employees. However, the payments are not considered “salary” for PERA purposes and contributions will not be accepted on these payments.


Employers will be sent information about how new participants in these plans after January 14, 1999, will be given an administrative opportunity with PERA, on an individual basis, to show cause why their payments should be salary for PERA purposes. No PERA contributions are to be remitted for any new plan participant until PERA notifies the employer that contributions will be accepted based on the member’s showing of cause.


**Did you get your meeting posters? Want to host a meeting or information table at your school or office? Look over the meeting list and see when we will be in your neighborhood—we might be able to fit it in the schedule. Call 1-800-221-2627 ext. 6188, 6185, or 6189.**

## PERAgraphs

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 **Welcome to PERA:** PERA welcomes the Park Center Water District (Canon City) to the Municipal Division. The District began operations in 1968 and serves the northern part of the City of Canon City and adjacent unincorporated areas. It currently has about 1,160 residential water customers in an area covering about eight square miles. The District also covers its employees under Social Security as do six other PERA employers.


 **Mandatory Social Security:** PERA is still working hard with other groups in the Coalition to Preserve Retirement Security (CPRS) to prevent mandatory Social Security coverage for new public employees. PERA has been working with all of the elected members of Congress from Colorado. Any additional assistance, e.g. correspondence to your congressional representatives and senators from your superintendent, executive director, or other senior person explaining the impact on your organization is strongly encouraged. Visit the CPRS Web site for more information: [www.retirementsecurity.org](http://www.retirementsecurity.org).


 **Medicare Part A Rules Change:** Effective in 1999, a retiree who wants to enroll in a Medicare+Choice Plan (formerly called a Medicare Risk HMO Plan) must be entitled to or purchase Medicare Part A (hospital insurance). Retirees who were enrolled in one of these plans prior to January 1999 who did not have Part A coverage were grandfathered and are allowed to continue in the plan. The two Medicare+Choice Plans in PERA's Health Care Plan are Kaiser's Senior Advantage Plan and PacifiCare's Secure Horizons.


To be entitled to Medicare Part A benefits without paying the monthly premium, an employee must have 40 credits, or be married to a person who has 40 credits. The worker does not need to have worked under Social Security, rather they need to have paid the Medicare tax and earned 40 credits for Medicare purposes. Any worker paying the Medicare tax earns one credit for Part A for every \$740 of earnings (in 1999) on which the tax is paid; the worker can earn a maximum of four credits per year. So, if the employee pays the Medicare tax on \$2,800 in earnings, the four credits are obtained.

Your employees hired on or after April 1, 1986, are required to pay the Medicare tax, including retirees who return to work part-time. Some of the retirees do not understand how to qualify for Medicare, do not know they are paying the Medicare tax, and are not aware that they may now be entitled to Part A. This happens especially if the retiree wasn't qualified when he or she contacted Social Security when applying for SS benefits at age 60 or 65. Any information employers can provide to retirees to make them aware that they now may be entitled to Part A will be appreciated. Having Part A coverage offers them more alternatives for health care coverage, and generally provides better benefits when hospital charges are incurred.


 **Life Insurance Open Enrollment:** New enrollments in the PERA Life Insurance Program totaled 2,390 during the open enrollment last fall. PERA appreciates all you are doing to provide this opportunity to your employees. Remember, enrollment is possible within 90 days of becoming a PERA member without a health statement. Outside of these times, enrollment requires completion of a health statement.

 **Life Insurance ACH Available:** Members who are intermittent employees (seasonal, substitutes, temporary) who are not on a regular 12-month payroll and who are participating in PERA's Life Insurance Program may arrange for their premiums to be deducted from their checking or savings account. Also, a member who is on a leave of absence and not receiving a check may also participate in this program. Participants who receive a regular check monthly (or more often) should continue to have their premiums deducted from their pay and remitted through the PERA Contribution Reporting system.

 **Publications:** Included in this TOPICS for employer payroll, personnel, and benefits offices is a copy of the revised *PERA Rules, Your PERA Benefits*, and the 401(k) Plan brochure. Last month, copies of the *Disability Program* brochure and *PERA Law* were sent. Employers may order additional copies by calling the PERA Customer Service Center (303-832-9550 or 1-800-759-7372) or their ER, or by ordering via the PERA Web site: [www.copera.org](http://www.copera.org).

 **Paycheck Stuffers:** Also included in this mailing to payroll offices are sample paycheck stuffers that some employers have used. Employers who want to include these stuffers in employee paychecks may order copies from PERA by calling the Customer Service Center or your ER or ordering through the Web site. Be sure to tell us which inserts you want, the quantity, and the deadline for getting them to you. They are becoming a popular way for employers to help employees better understand their retirement plan.

 **Annual Calendar:** Each year your Employer Representative sends a contribution processing calendar to all payroll and personnel contacts. We are including that calendar with this TOPICS. Call your ER if you did not get it.

 **Contributions End on Salary Over \$160,000 of Salary:** To clarify IRS limits, contributions should not be remitted to PERA on salary over \$160,000 in any calendar year for employees who became PERA members after 1995. Colorado Revised Statutes stipulate that PERA will not collect contributions on more than \$160,000 of salary for those who are not "grandfathered" under IRC Section 401(a)(17). Everyone who became a PERA member prior to 1996 is "grandfathered" under this provision so contributions will continue to be paid for them on all of their compensation.