



# TOPICS

## Disability Program Update

Beginning in January 1999, PERA implemented its new Disability Program. Like the old program, PERA's new Disability Program provides vested members (those with five or more years of service) income should they become disabled. However, the new program separates temporary or partial disabilities from permanent or total ones. Based on the type of disability and rehabilitation/retraining potential, Standard Insurance Company, the administrator of the program, determines whether the member should receive either a short-term disability payment or a disability retirement benefit.

The short-term disability plan provides up to 22 months of rehabilitation and training while the member is receiving up to 60 percent of current PERA salary. If an employee is approved for the short-term disability, the employer has the option to terminate the employee or complete a *Certification of Leave of Absence* form (8/1) for the short-term disability period.

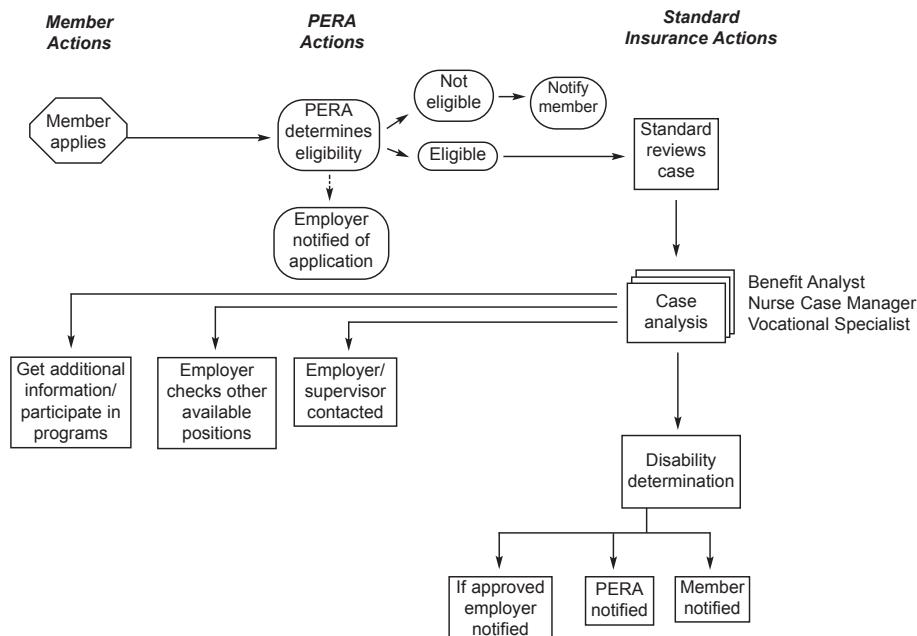
The other part of the program is disability retirement. If a medical or mental condition prevents a member from engaging in any regular and substantial gainful employment, he or she may qualify to receive a monthly benefit from PERA for as long as the disability continues.

Members submit applications to PERA where eligibility is determined. Those eligible are referred to Standard while those ineligible are informed of their options. If they are ineligible for disability retirement and end employment, they may leave their account with PERA, refund it, or, if qualified, apply for reduced service retirement.

Standard decides whether members meet the definitions for short-term disability or disability retirement. If qualified for short-term disability, Standard notifies PERA of the approval, and PERA notifies the employer. Standard works with the member to set up rehabilitation and training as necessary, and works with the employer to make work site accommodations and to secure a position once the short-term period is over. Should a member qualify for the disability retirement, Standard notifies PERA, and PERA notifies the employer; a retirement benefit is then processed.

In the first ten months of 1999, Standard approved 213 members for short-term disability and 62 members for disability retirement benefits.

### Flow Chart for Disability Process



## PERAGraphs

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**▲ Bob Scott Announces Retirement:** Bob Scott, PERA's Executive Director, announced recently that he will retire June 30, 2000. Scott became PERA's Executive Director in 1984. During his tenure, PERA's trust fund has grown from a value of \$4 billion to more than \$28 billion (as of June 30, 1999) and has significantly increased its investment exposure to common stocks, venture capital, private equity, and in-state investments. The plan's annualized return for the 10-year period ended December 31, 1998, was 13.2 percent, exceeding the median annualized return for public plans while being below the median risk level. A search committee consisting of five Trustees from the 16-member PERA Board of Trustees has been formed to begin a search for Scott's successor.

**▲ Y2K—Ready to go!** PERA's preparations for Y2K are completed and we are ready. One unusual step is that PERA will issue benefits on Dec. 17—about two weeks ahead of the normal payday. However, we are not taking this action because we are concerned with our readiness or that of the banking or investment industry; rather, the action is being taken to ease concerns of retirees and other benefit recipients who have contacted us.

**▲ Health Care Subsidy Program:** Some employers lower or cover all of the cost of health care premiums paid by their retirees by providing an employer subsidy. This has often been used as an inducement for retirement. If you are interested in providing a subsidy for retiring employees, contact PERA. The *Health Care Program Subsidy & Change Form* (2/107 REV 9-99) has been revised and sent to those employers currently participating in the program.

**▲ Long-Term Care Program Re-opens:** The Long-Term Care Program offered to PERA members and retirees and their family members will re-open in January and February. Information will be sent to employers and members. If you would like to host a meeting for your employees about this often overlooked insurance, please call 1-888-PERALTC. The program has been revamped, giving enrollees a greater choice of options so they may tailor their coverage to what is best for them. We are advised by the program administrator—U.S.Care—that premiums will be reduced from the initial offering. The coverage will still be offered on a modified guaranteed-issue basis for January and February. After that, the program will be available on a fully underwritten basis at any time, that is, the enrollee will be required to complete a health statement and qualify for coverage.

**▲ PERA Life Insurance Program:** Rocky Mountain Life and Prudential Life brochures were sent to all PERA members who are not enrolled in the Life Insurance Program. We encourage employers to take a look at the new coverage provided by Prudential. Coverage for persons under age 25 increased by \$56,000 at no additional charge and all other age groups saw an increase of at least 10 percent. What makes PERA's Life Insurance Program stand out from others? It's portable—if an employee leaves your employment but retains his or her account at PERA, he or she may continue to have the coverage at the same cost. And, the coverage can be maintained in retirement; many other plans terminate coverage when an employee retires. In that respect, now is the time for those employees to enroll who don't have the coverage and plan to retire in the next year or so. There are no health statements to complete. We encourage you to remind your employees to take advantage of this very inexpensive—yet beneficial—insurance coverage.

**▲ New PERA Member Kit:** A folder has been created to send information to new PERA members. It contains the following brochures: *Information for New PERA Members* (5/57), *Rocky Mountain Life* (5/45) and *Prudential* (5/42) life insurance brochures, a *401(k) Mailer* (14/10), a *Long-Term Care brochure*, and a *Web site flyer*. The packet is mailed to a member shortly after PERA receives his or her *Member Information Form*.

**▲ Member Information Form Reminder:** Upon completion of a *Member Information Form* (two-part) number 8/324(a), please send PERA the white copy. The yellow copy is for you, the employer (if you file a copy), or the employee if you don't. If you do not use the second copy, please order the one-part form number 8/324. Also, please make sure the employer number on the form is correct; if it is not, please cross it out and put the correct number in before submitting it to PERA.

**▲ Purchasing Service Credit and the Employer:** Purchases of PERA service credit are always made directly by the employee to PERA. The employee must have "verifiable" employment worked outside of PERA to purchase and is responsible for completing a *Purchasing Service Credit Application* with PERA. Once an agreement is calculated, the employee will arrange payment with PERA. An employer may pay the employee for the purchase, but this becomes a "taxable" transaction. Also, any money received by the member for purchases of service credit cannot be considered as salary for Highest Average Salary (HAS) calculations.

**▲ Working After Retirement:** The rule limiting working after retirement to 110 days or 720 hours per year for a PERA-affiliated employer applies whether the job is subject to PERA-covered employment or not. That means, a retired teacher would be limited to 110-days if he or she wants to be a professor at a state college or university. It would also apply if a retiree wants to serve as a manager of a city department who would normally be eligible to be enrolled in ICMA. The law was changed in June 1994 and any retiree hired after date is subject to this limitation. Exceptions apply for state legislators, judges who may also work under the Senior Judge Program, and faculty/administrators who retired before June 1994 and are covered by an optional retirement plan.

**▲ PERA Survey on Tax-Deferred Plans:** To help us prepare for the upcoming defined contribution DC match program, PERA needs each employer to complete and return the “PERA Survey on Tax-Deferred Plans.” Some surveys were e-mailed to employer payroll offices and some are enclosed with this *TOPICS*. You may fax your response to 303-863-3819 or send it to PERA Communications Division, 1300 Logan St., Denver, CO 80203. We need a baseline to determine how effective the match program is in encouraging members to invest for their retirement.

**▲ Revised Forms/Publications:**

- *Information For New PERA Members (5/57 REV 7-99)*
- *Your PERA Benefits (5/5 REV 7-99)*
- *Leaving PERA-Covered Employment (5/11 REV 6-99)*
- *Certification of Leave of Absence (8/1 REV 11-99)*
- *PERA Rules (5/14 REV 9-99)*
- *Working After Retirement (2/55 REV 10-99)*
- *PERA Law (5/6 REV 11-99)*

**▲ 401(k) Changes on the Horizon:** Changes are being made in PERA’s 401(k) Plan so it may be the plan of choice when the DC match program begins. By having your employees participate in the 401(k) Plan, you provide ease of administration of the match program and access to one system that handles their retirement investment needs. We encourage you to invite us out to talk about the 401(k) Plan to your employees. The changes that will be taking place next spring include the following:

- Moving from monthly to daily valuation
- Shortening the time it takes to get a quarterly statement
- Increasing the number of funds to provide a full range of investment options
- Implementing a Web site so members may view account balances and make changes in their investments with the use of a PIN
- Reducing the time to get a loan or distribution
- Reducing the administrative fee

**▲ 401(k) Contribution Changes:** The contribution limit is changing on January 1, 2000, from \$10,000 to \$10,500. Please inform your employees of the change and remind them that contribution changes (changing the amount, suspending or resuming) must be made through the employer personnel/payroll office.

**▲ Substitute Teachers Have the Right to Participate in the 401(k) Plan:** Make sure substitute teachers are aware that they may participate in the 401(k) Plan. The State Attorney General ruled several years ago that, in accordance with state law, all PERA members have a right to contribute to the 401(k) Plan and an employer must allow it.

| <b>▲ 401(k) Third Quarter Returns:</b> | <b>1999<br/>3rd Qtr</b> | <b>Last<br/>12 Months</b> | <b>5-Year<br/>Annual Average</b> |
|--|-------------------------|---------------------------|----------------------------------|
| Money Market Fund                      | 1.29%                   | 5.22%                     | 5.33%                            |
| Short-Term Bond Fund                   | 0.83%                   | 3.00%                     | 6.95%                            |
| Long-Term Bond Fund                    | 0.81%                   | 0.02%                     | 8.58%                            |
| Balanced Fund                          | (5.29%)                 | 16.19%                    | 15.21%                           |
| Growth & Income Stock Fund             | (2.46%)                 | 28.33%                    | 24.12%                           |
| Growth Stock Fund                      | (4.65%)                 | 31.80%                    | 23.00%                           |
| International Stock Fund               | 5.74%                   | 43.44%                    | 14.95%                           |



**Building a New Health Care Program...**

PERA is currently developing a new Health Care Benefits Program, which is scheduled to be available for employers to review in April 2000. PERA is working diligently in putting together the new program authorized by legislation earlier this year that will give PERA employers a health care option for their active employees. PERACare will have three levels of premiums—active employees, pre-Medicare retirees, and Medicare-eligible retirees—and will include various HMOs, PPOs, and dental and vision coverage. The plans offered will include various benefit levels from which an employee may choose. PERACare, including staff, marketing, and administration, will be funded through the premiums and will not receive any subsidy from PERA. More details will be sent in the months ahead. Thank you to all employers who have responded to our surveys! If you have questions or are interested in the PERACare program, you may e-mail us at [peracare@copera.org](mailto:peracare@copera.org).

**Q.** Who is responsible for providing health care coverage for employees aged 65 and older, employers or Medicare?  
**A.** Employers are required to offer the same group health coverage to employees and their spouses age 65 and older that they offer to younger employees. Medicare is the secondary payer of health benefits for this group of employees. This requirement, which has been the law since 1983, is incorporated into the Social Security Act and is enforced by the Health Care Financing Administration (HCFA.)

## **Preparations Continue For Match To Voluntary DC Plan Contributions**

PERA continues to make preparations for the new PERA program that will allow employers to divert some of their contributions normally sent to PERA to match members' voluntary contributions to defined contribution (DC) plans such as 403(b), 457, or 401(k) plans. In the last issue of *TOPICS*, we ran some questions and answers about this program. You may visit PERA's Web site to find those Q & As. Here are some additional ones:

### **Q. Will every PERA member get the same matching amount?**

**A.** No. The amount of money available for the match will be determined according to each PERA division based on the level of funding of each of those trust funds. The contribution rates are different for each division as well. Also, how the PERA Board of Trustees sets the match will impact what each participant receives. No decision has been made yet as to whether the match will be a percent of pay or a flat dollar amount and whether or not there will be a maximum amount. Private-sector employers often match at 50 percent of the first 6 percent of pay; others match 100 percent of the first 2 or 3 percent of pay.

### **Q. What happens to the money that is not used for the match?**

**A.** Any employer contributions not used to match voluntary contributions to a DC plan will be sent to PERA. An employer is not allowed to keep any of the unused match dollars and cannot divert it to other members who have already received their share.

### **Q. Will PERA also reduce the employer contribution rate?**

**A.** Yes. PERA has been directed by the legislature to reduce the employer contribution rate at the time it implements the match program, which is after a division trust fund is fully funded. Consequently, simultaneous with the match, a Judicial, State, and School employer will receive authorization to reduce its contribution rate to PERA permanently by 1 percent of pay. Municipal employers will have a reduction, but because their contribution rate is already lower than other divisions, it will not be permanent; the amount of the reduction in their rate will be determined each year. This will reduce total employer contributions to PERA by about \$40 million.

Employers will also be given instructions to reduce employer contributions by the match amount for each member that participates in a DC plan. Anyone who does not participate does not receive the match and it is sent to PERA.

When a division is "overfunded," PERA's actuary will determine an amount for that trust fund that will reduce this overfunding. This amount will then be split evenly between the member and the employer, so an additional reduction or match may occur. For example, if 1 percent of pay is available due to overfunding, the employer contribution rate will be reduced by a temporary (0.5) one-half percent for that year (in addition to the permanent 1 percent reduction explained above). The other (.05) one-half percent of pay will be used for the matching program.

PERA will announce before September 1 each year the amount of the match for each division and the new contribution rate for employers for the following year.

### **Q. I have an employer-funded 401(a) plan for some of my employees. Will the match apply to it?**

**A.** No. The match will not apply to any plans that receive contributions only from employers. The employee must make a voluntary contribution from his or her pay to receive the match.

### **Q. What if an employee does not receive a pay check for one month. Do they still receive the match?**

**A.** Members will receive a match only in the months they contribute to PERA and a DC plan. If they do not receive pay for a period of time, then there is no DC contribution to match.

### **Q. What does fully funded and overfunded mean?**

**A.** Fully funded means that PERA has 100 percent of the assets it needs to pay all of the promises it has made in benefits up to that point in time. It does not mean that no funds are needed at PERA. Each month, members add service credit or have increased salaries so new liabilities are added. Consequently, the "normal cost" to fund the retirement program is still needed, but there is no unfunded liability when PERA is fully funded.

An unfunded liability is created when a benefit is improved and PERA has not funded that liability in advance. For example, when the benefit formula was improved a couple of years ago for service over 20 years, a large unfunded liability was created because PERA agreed to pay a retiree 1 percent of pay more for every year worked over 20. PERA had not been funding for that increase in the benefit, so an unfunded liability was created (much like when you add a room onto your house and increase the cost of your mortgage). We are using investment income above our anticipated rate of return of 8.75 percent and some of the employer contributions to build up enough assets to cover this unfunded liability. Once the assets have increased enough to pay for the costs of those benefits, the trust fund will be considered fully funded.

As PERA continues to receive investment income above what we need and the employer contributions previously used to help pay off the underfunding, an overfunding condition will occur. Consequently, benefits can be increased and contributions can be reduced. This new DC match program will accomplish both of these.