



TOPICS-Special Edition

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The PERA MatchMaker

Employer Questions about PERA MatchMaker Answered

(Please distribute copies to all staff involved in administering the MatchMaker Program at your employer.)

1. What is the MatchMaker formula?

The Board of Trustees has set the following formula for the MatchMaker Program for calendar year 2001. The employer will match dollar-for-dollar all employee contributions to a 401(k), 457, 403(b), or 401(a) plan up to a maximum of 3 percent of the member's PERA-includable salary for State and School Division members. For Municipal Division members, the maximum match is 2 percent of PERA-includable salary and for Judicial Division members (judges), the maximum match is 7 percent of PERA-includable salary per pay period.

Example #1: A school member has a salary of \$2,500 per month. The member has \$500 per month deducted for a Section 125 Flexible Spending Account and also contributes 3 percent of pay (\$75) to a DC plan. The MatchMaker dollars will be \$60. Rather than sending an employer contribution of \$208 to PERA, \$148 is remitted.

Explanation: The member's PERA-includable salary is \$2,000 (\$2,500 - \$500). The formula allows dollar-for-dollar match up to 3 percent of the PERA-includable salary (\$2,000 x 3%). The amount of the employer contribution is a reduction from the statutory employer amount remitted to PERA.

Example #2: A college employee has a PERA-includable salary of \$2,500 and is contributing \$25 to the 401(k) Plan and \$25 to a 403(b) Plan. The MatchMaker dollars will equal \$50.

Explanation: The \$50 is still under the 3 percent of PERA-includable salary (\$50 is 2% of \$2,500). See Q4 and Q5 below.

2. When does the MatchMaker actually begin?

Like contribution reductions, MatchMaker dollars are deducted for any employee's voluntary contributions that are made for a payroll period that ends in January.

Example #1: Pay period ends January 5. MatchMaker can be applied for any contributions to DC plans for that pay period.

Example #2: Pay period ends December 31 and paychecks are distributed January 2. MatchMaker cannot be applied for those contributions.

3. Are the MatchMaker dollars considered employer or employee dollars?

The MatchMaker is an employer matching contribution program made possible by Senate Bill 99-90 and the fact that PERA is fully funded. The dollars used to match voluntary contributions to defined contribution plans (called PERA MatchMaker dollars) come from employer dollars that, absent the employee's voluntary DC contribution, would be remitted to PERA.

4. Can the employer direct that the matching dollars go to a plan to which the employee is not contributing?

No, the law provides that these matching dollars must follow the employee's voluntary contributions to the employer-sponsored plan to which a PERA member is contributing. Consequently, If the employee is contributing to more than one plan, the employee must be able to specify which plan or plans will receive the match under the framework the employer has set. For example, if a member contributes to a 403(b) plan and to the PERA401(k) Plan, the MatchMaker dollars must go to the 403(b) plan and/or the 401(k) Plan. The only exception applies to employees of the State of Colorado; a separate law allows it to create a 401(a) plan that will receive the MatchMaker dollars for employees contributing to the State's 457 Deferred Compensation plan.

The employer can specify that the match will be split or not split for those employees contributing to more than one plan. Employers can set up the administrative framework any way they believe to be most efficient.

5. Must an employer allow employees to elect where their matching dollars go?

Yes. An employee who is contributing to more than one plan may choose which tax-deferred plan or plans will receive the MatchMaker dollars. Of course, the employee must be contributing to the plan(s) and the match will equal the employee's contributions up to the maximum percentage of PERA-includable salary, as set by the Board of Trustees.

6. Can an employer restrict an employee by allowing the matching dollars to go to only one plan?

While PERA believes it is preferable to give the employee as much flexibility as possible, we don't believe there is anything which precludes an employer from refusing to split each employee's MatchMaker between two or three plans. However, the employer must allow the employee to decide which plan should receive their MatchMaker dollars and to allow the employee to change that decision.

7. What if a school employee is contributing 2 percent to a 403(b) plan and 1 percent to PERA's 401(k) Plan? Won't the employee lose some of the match if the employer requires the employee to direct the money to only one plan?

Under that situation, the employee would not receive the full match. So, the employee would probably want to increase the amount contributed to one of the plans to receive the full MatchMaker contribution, or the employer may decide not to restrict the employee and allow splitting the MatchMaker dollars between the 401(k) Plan and the 403(b) plan.

8. My vendor says that in a 403(b) plan participants may withdraw employer contributions at any time after they have been deposited. Will PERA implement any rules requiring the MatchMaker dollars to be retained in an account until the employee terminates employment?

No, PERA has no authority to make any rules that would impact MatchMaker dollars that go into plans not sponsored by PERA.

9. Can an employer or vendor set up a 401(a) plan to receive the matching dollars?

With the exception of the State of Colorado and its 457 deferred compensation plan, the answer is no. There is no provision in state law that allows an employee to contribute to one plan while the MatchMaker dollars go to another plan. The MatchMaker dollars must follow the plan in which the employee is voluntarily contributing. Under federal law, a 401(a) plan may only receive mandatory contributions or after-tax contributions from employees. Employees may not make voluntary tax-deferred contributions to a 401(a) plan.

10. Can PERA's 401(k) Plan receive the matching dollars?

Yes, the 401(k) Plan can receive the matching dollars for those employees who are contributing to the 401(k) Plan. The 401(k) Plan cannot receive MatchMaker dollars for anyone not contributing to the plan.

11. Should employers set up a 401(a) plan to provide the employees with the greatest opportunity to tax-defer contributions?

Whether employers set up a 401(a) plan (following all of the IRS requirements to ensure continued qualified status) is really their decision; PERA cannot advise on that subject. However, a 401(a) plan may not receive voluntary tax-deferred employee contributions. Consequently, since the MatchMaker dollars must follow the dollars going to a tax-deferred plan, no MatchMaker dollars would be able to go to the 401(a) plan (except that the State has a 401(a) plan specifically set up by state law for the purpose of receiving the MatchMaker dollars).

12. Is there a minimum to the MatchMaker or a maximum annual dollar limit?

There is no minimum except for any tax-deferred plan minimum, e.g., PERA's 401(k) Plan has a minimum contribution of 1 percent of pay. The PERA Trustees did not set a maximum MatchMaker dollar amount for 2001. However, there are maximums specified by current Internal Revenue Code that apply and by the amount allowable as PERA-includable salary.

13. Are PERA contributions or FICA tax paid on the MatchMaker dollars?

PERA contributions are not to be paid on the MatchMaker matching dollars since they are not part of PERA-includable salary. Employers with 457 and 403(b) plans should seek their own tax or legal advice on this matter. FICA tax is not required to be paid on the MatchMaker dollars that go to a 401(k) plan. Information published by the National Governmental Association of Deferred Compensation Administrators says that FICA (i.e., the Medicare tax for those that it applies to and the Social Security tax for those few employers who also pay that tax) is to be paid on employer matching amounts (MatchMaker dollars) that go to a 457 plan.

14. Can an employee decline the match?

Yes. An employee can request that the match not be deposited in his or her account. As a result, there would be no MatchMaker contributions to a tax-deferred plan and the full employer contribution amount would be remitted to PERA just like for any member not contributing to a DC plan.

15. Will every PERA member get the same matching amount?

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. Also, the amount contributed by the member will affect the amount of the match.

16. What happens to any money that is not used for the match?

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.

17. Will the MatchMaker dollars count against the employees' \$10,500 limit for a 401(k) or 403(b) or against the \$8,000 limit for 457 plans?

The MatchMaker dollars do not count against the individual \$10,500 limit for 401(k) or 403(b) plans, but members enrolled in those plans may need to reduce the percentage of pay or dollar amount they contribute to either plan to remain below the 25 percent of compensation limit, or the 403(b) exclusion allowance. MatchMaker dollars do reduce the employees' 457 plan \$8,000 maximum contributions dollar-for-dollar. However, MatchMaker dollars will go to a 401(a) plan for state employees enrolled in the State's 457 plan, and the \$8,000 maximum will not be reduced dollar-for-dollar.

18. What are the IRC 415 limits?

Generally, IRC section 415 limits employee and employer contributions for 401(k) Plans to a maximum of 25 percent of the employee's gross salary (PERA-includable salary + Section 125 plan deductions + Transportation Equity Act allowances) minus PERA member contributions. (See more complete information about the definition of PERA-includable salary in section 24-51-101 (42) C.R.S. and Subject 2-1 of the PERA Employers' Manual.)

Example: A PERA Municipal Division member eligible to receive up to 2% of PERA-includable salary as a match, receives a gross annual salary of \$30,000 and does not contribute to a Section 125 Plan. The member contributes 23% to the 401(k) Plan (\$6,900) and \$2,400 to PERA (8%). The MatchMaker dollars for this Municipal employee will be \$600 for the year (\$2,500 per month x 2% = \$50 x 12). The total employee contributions and MatchMaker dollars is \$7,500. Divide \$7,500 by \$27,600 = 27.17%. This exceeds the 415 limit for 401(k) plans, so the employee will have to reduce his or her contributions to avoid exceeding the limit.

19. Is there anyway to avoid the 415 limits?

None that we know about unless H.R. 1102 is enacted into law. Here is some information about this bill currently before the U.S. Senate:

The U.S. House of Representatives passed H.R. 1102, the Comprehensive Retirement Security and Pension Reform Act, on July 19 by a vote of 401-25. This bill addresses numerous tax-deferred investment and pension portability issues. There is no guarantee that this bill will become law. As currently written, the anticipated effective date for most of the provisions is 2001. Here are just a few of the provisions:

- ◆ Increases the percent of compensation that may be contributed to a 401(k), 403(b), or 457 plan from 25% (33-1/3% for 457 plans) to 100% of compensation.
- ◆ Increases the limit on elective deferrals to 401(k), 403(b), and 457 plans to \$15,000 (phased-in over 5 years).
- ◆ Provides portability of pension assets between IRAs, 401(a), 401(k), 403(b), and 457 plans.
- ◆ Allows participants in government defined benefit plans to use assets in their 457 and 403(b) plans to purchase service credit or to reinstate a previously refunded account.

20. What should employers be doing now?

Employers may want to do these three things:

- ◆ Budget for costs to change or implement new computer programs and report information on the match to PERA. (Employers will be required to report to PERA the following information monthly: The total dollar of DC contributions by a member and the total match for that person. Annually, employers will have to report a list of vendors who received match dollars. Some changes in the PERA and 401(k) Contribution Reports will be required.)
- ◆ Inform their voluntary 403(b) vendors of the law since the employer will be sending the match amount to the vendor.
- ◆ Inform PERA members of the impending voluntary match program and encourage enrollment in authorized voluntary tax-deferred programs so they are ready to "multiply their money."

21. Are contributions to an employer-funded 401(a) plan or 403(b) plan included in the match?

No. The match will not apply to any plans that receive contributions only from employers. The employee must make a voluntary contribution or deduction from his or her pay to receive the match for that contribution. The contribution must come from PERA-includable salary.

22. What if an employee does not receive a paycheck for one month? Do they still receive the match?

Members will receive a match only for the pay periods 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.

23. Is there a reduction in the employer contribution rate associated with the match?

SB 99-90 enacted in 1999 at the same time as the MatchMaker program included an automatic permanent reduction in the State and School and Judicial Division employer contribution rate of 1 percent of pay. HB1458 enacted in 2000 moved this permanent reduction forward from January 1, 2001, to July 1, 2000. This reduction reduces total employer contributions by about \$43 million annually. On July 1, 2001, the rate will be reduced by another 0.5%. For the Municipal Division, SB99-90 provided for a rate reduction in addition to the reduction to cover the cost of the match when the match begins. The Municipal Division employer contribution rate will be reduced from the current 10.0% of pay to 9.43% for pay periods ending after January 1, 2001.

Changes Required For PERA & 401(k) Contribution Reporting

PERA Contribution Reporting

Annually, PERA will need a list of the defined contribution vendors receiving the MatchMaker dollars for employees. For each pay period, PERA will need the following information:

- ◆ Amount of voluntary DC contributions by employee per pay period
- ◆ Amount of match for that employee per pay period

As in the past, electronic contribution reports can be submitted either as a “flat” file or an Excel spreadsheet. We are enclosing information that provides full detail specifications for the file layouts. The length of the file with the new required information will not need to be changed since there is existing space in the “flat” file and in the columns of the spreadsheet to include this new information. The new format will be valid starting with the January 2001 *Contribution Report*.

The *Member Contribution Report* flat file specifications that overlay unused fields are as follows:

- ◆ Employee DC Contribution: positions 70-78, a 9-digit signed numeric with 2 decimal places implied.
- ◆ PERA MatchMaker Contribution: positions 79-87, a 9-digit signed numeric with 2 decimal places implied.
- ◆ File Format Flag “*”: Position 95, alpha-numeric, filled with an asterisk to indicate the new file format.

The *Member Contribution Report* Excel spreadsheet specifications that overlay unused fields are as follows:

- ◆ Employee DC Contribution: Column I, a 9-digit signed numeric with 2 decimal places.
- ◆ PERA MatchMaker Contribution: Column J, a 9-digit signed numeric with 2 decimal places.

401(k) Plan Contribution Reporting:

As in the past, electronic contribution reports can be submitted either as a “flat” file or an Excel spreadsheet. The “flat” file length will need to be changed since there is not enough space in the file format to include the new required information for the MatchMaker contributions used to match contributions to PERA’s 401(k) Plan.

In the “flat” file, the current employer matching field is dedicated for amounts an employer is matching for an employee (separate from the MatchMaker program); this field will continue. However, the record length must be expanded from 96 bytes to 128 bytes. Two new fields must be added at the end of the current file layout. No format flag will be required since the file size is increasing. These new fields will only be valid for a contribution report of January 2001 or later. Before then, information in these fields will be cleared during processing.

The 401(k) *Contribution Report* flat file specifications that have been added are as follows:

- ◆ PERA MatchMaker Contributions: Positions 97-107, an 11-digit signed numeric with 2 decimal places implied.
- ◆ Employer Discretionary DC Contributions: Positions 108-118, an 11-digit signed numeric with 2 decimal places implied.
- ◆ Positions 119 - 128 must be filled with zeros.

The 401(k) *Contribution Report* Excel spreadsheet specifications are as follows:

- ◆ PERA Matchmaker Contributions: Column J, a 9-digit signed numeric with 2 decimal places.
- ◆ Employer Discretionary DC Contributions: Column K, a 9-digit signed numeric with 2 decimal places.

PERA will accept test files or reports. Please ensure to mark them as a “test” file. After the test is completed, the reporting employer will be notified of any discrepancies or variances that need to be completed. To send a test file, contact Ron Baker at 303-863-3895.

Below is a sample of how the PERA Contribution Report Summary will be changed. PERA will be sending new Contribution Report Summary forms to employers in November.

Total PERA-Includable Salary	\$ 5,100,000	
Total Employee Contributions to DC Plans	\$ 213,100	
Employer Contributions (10.4%).....	\$ 530,400	—Before any MatchMaker deductions
MatchMaker Contribution Reductions.....	(153,000)	—3% of PERA-includable salary assuming 100% of your PERA employees are contributing 3% or more to a DC plan (or 2% for Municipal employers)
Total Employer Contributions	\$ 377,400	—Actual dollars remitted to PERA
Member Contributions	\$ 408,000	—8% of PERA-includable salary
Life Insurance Premiums	\$ 30,000	—Voluntary life insurance plan
Total Remitted.....	\$ 815,400	—Total remittance to PERA

Below is a sample of how the 401(k) Contribution Report Summary will be changed.

Total PERA-includable salary.....	\$ 5,100,000
Total Section 125 Deductions.....	\$ 20,200
Member 401(k) Contributions.....	\$ 210,000
Employer Matching 401(k) Contributions	\$ 75,000
PERA MatchMaker 401(k) Contributions.....	\$ 153,000
Employer Discretionary 401(k) Contributions.....	\$ 0