mnpera.org
Employer Newsletter of the Public Employees Retirement Association

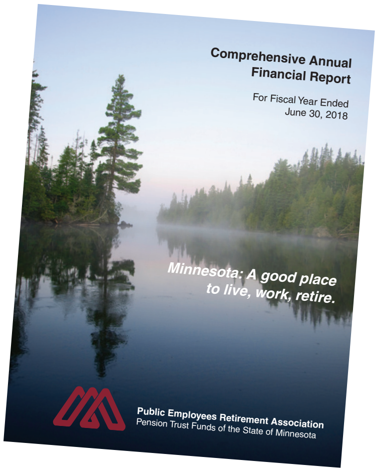
PERA PHRASE

Over 3,500 Employers
166,000 Active Members

MARCH 2019 — Quarter1

2018 Comprehensive Annual Financial Report (CAFR) is available

The 2018 *Comprehensive Annual Financial Report* (CAFR) is available online at mnpera.org.



The CAFR provides an extensive review of our financial status, as well as information about our structure, investments, and demographics.

The *Summarized Annual Financial Report* is also available online. This is a summary of the CAFR highlighting our mission and vision statements, a summary of the financial statements, along with a few interesting facts.

PERA Board welcomes new trustees

The Board welcomed two new trustees, along with three returning trustees to the Board during their meeting Feb. 21.

The returning trustees are: Paul Bourgeois, active General and Correctional Plan representative, first elected in February 2011, and again in 2015; Thomas Stanley, active General and Correctional Plan representative, first appointed to fill a vacant board seat in March 2013, and elected in 2015; and Paul Ford, Police & Fire representative, first appointed to fill a vacant Board seat in August 2017.

The two new Trustees joining the Board are Thomas Rupp, active General representative, and State Auditor Julie Blaha.

Election America, the election vendor, certified the board election results. The Board voted to accept the results.

The Board of Trustees will also be filling the Retired, Disabled, and Survivor Representative seat.

For more information on PERA's Board of Trustees, visit mnpera.org.

Administer and promote sustainable retirement plans and provide services that our members value.

ISSUE HIGHLIGHTS:

Tips to deal with excluded worker thresholds

On occasion, an employer contacts us with a concern regarding an employee who has been excluded due to projected earnings below the $5,100 minimum ($3,800 for school-term employees), but who is working more hours than expected and may likely exceed the annual salary threshold for PERA membership. The employer asks if there is any way to avoid or limit the potential liability for omitted deductions.

If you encounter this situation, you may choose to cancel the membership exclusion mid-year and begin making PERA contributions. To do this, follow these steps:

1. Complete the PERA enrollment. Report the actual hire date of the employee, the date of eligibility (enrollment) and the exclusion code (303 for earnings under $5,100, or 302 for earnings under $3,800).
2. Inform the employee of the reason for enrollment and provide the *Notice of Non-Covered Employment or Provisional Coverage* form with *Section B* completed.
3. You then have two options relating to monitoring the employee's earnings through the end of year. You can do the salary tracking directly, or rely on the process that PERA does on all new members. If you continue to monitor the employee's salary directly and find that after the year ends the employee's earnings have exceeded the membership threshold, you must complete the *Individual Record of Earnings (IRE)* form and send it to PERA. Under the law, omitted deductions will be due only if the employee was paid more than $425 in any month prior to the date of PERA enrollment.

Annual Threshold Report Considerations

As you know, PERA tracks the earnings of newly enrolled members from the starting date of membership. If the earnings reported—after a full year of monitoring—are below the minimum salary threshold, the employee will be listed on the *Annual Salary Threshold (Threshold)* report.

When completing the *Threshold* report to make a final eligibility determination, take extra care to consider all of the employee's earnings in the year – including wages earned prior to the PERA enrollment. If the employee's total annual earnings are above the threshold, the pension deductions are valid and are not payable as deductions in error. Omitted deductions will be due if the employee was paid more than $425 in any month prior to the date of PERA enrollment.

To further clarify this situation, see the Case Study below. To review information about the *Threshold Report* and *Provisional Enrollment* refer to the *Employer Manual Chapter 3*. Omitted Deductions are discussed in *Chapter 7*.

Case Study

Tom is hired by a city in October 2018 and excluded from PERA due to projected annual earnings well below $5,100. In 2018, Tom earned $800.

As the employer, your practice is to review the earnings of PERA-excluded employees each month. In June 2019, you notice that if Tom's current work pattern continues, his annual earnings will well exceed $5,100. As of June 15, 2019, Tom had earned $2,700 with monthly amounts as shown below.

Jan. 2019	Feb. 2019	March 2019	April 2019	May 2019	June 1-15, 2019
$300	$300	$400	$400	$800	$500

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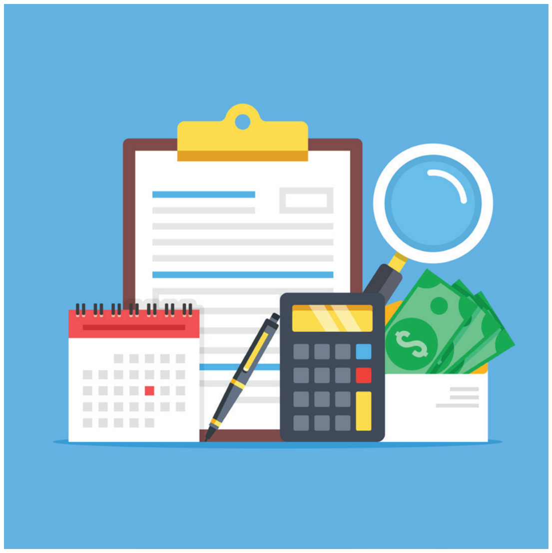
Vacation leave pay for terminating members

When a PERA member terminates employment, the employee is often eligible to receive compensation for accrued vacation hours as part of the terms of separation. Employers may either pay a terminating member for accumulated unused vacation leave after the last day of work or keep the employee on the payroll until the accrued leave is fully used and paid out. Whether the pay is for used or unused vacation hours affects PERA contributions and allowable service credit.



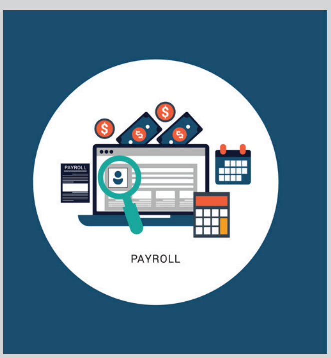
Lump-sum payments of unused vacation

As outlined in the *Employer Manual Chapter* 5, if accumulated vacation hours are paid in a lump sum in one payroll period or in more than one payroll periods after the employee has terminated employment, PERA contributions must not be deducted. The effective date of the employee's termination is the last day worked. Do not report the payment(s) of unused vacation leave on your *Salary Deduction Report* (SDR).

On payroll in a paid time-off status

If the PERA member is carried on the payroll by the employer as an active employee and continues to draw his or her normal level of pay by using all accrued vacation leave, PERA contributions are deducted from the amounts that represent used vacation hours for each pay period and the employee is given allowable service credit through the date of termination. In this scenario, the employee's termination date is the last day the employee is in a paid status while using accrued vacation hours and earning other employer-provided benefits. PERA's rules do not state that a member must actually work on the last day of employment.

Case Study



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You decide to provisionally enroll Tom on June 16, 2019. His earnings from that date through Dec. 31, 2019 totaled $3,100 and PERA deductions were withheld. In 2020, Tom's PERA-covered earnings are $4,950.

In March 2021, your *Threshold Report* includes Tom with earnings of $3,100 for 2019 and $4,950 in 2020. To determine if Tom's membership is valid for those years, you research his employment and note that his enrollment had been delayed and he earned $2,700 prior to his PERA start date of June 16, 2019. In 2019, Tom's total pay was $5,800 ($2,700 through June 15 and $3,100 thereafter); therefore, he qualifies for PERA coverage back to the first month in which he was paid more than $425 in that year. You must:

1. Select *No Refund – Coverage Valid* for Tom's record on the *Threshold Report* and provide information about his additional earnings in the explanation section.

2. If not done at the time of enrollment, send a completed *Individual Record of Earnings* form to our office so we can determine any omitted deduction liability.

In this example, the period of omitted deductions is under 61 days so Tom must pay the omitted employee deductions and your agency must pay the omitted employer contributions with interest.

By monitoring the earnings of your excluded employees each month and taking steps in mid-June to provisionally enroll Tom when his monthly earnings in May had exceeded $425, you reduced the potential omitted deductions liability for both Tom and your city. You also properly provided Tom with PERA coverage back to May 2019 (his first eligibility date) as PERA law requires.

PERA
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Ask PERA!

Have a question for PERA?
We'd love to hear from you!

Email
employer.reps@mnpera.org

Employer Line
651-296-3636 (metro area)
1-888-892-7372 (toll-free)

Member Line
651-296-7460 (metro area)
1-800-652-9026 (toll-free)

Website
www.mnpera.org

Q. What does "80-90-100" mean in discussions about PERA's plan funding?

At the Dec. 13, 2018 board meeting, PERA's Board of Trustees received an actuarial update on the financial health of PERA's three largest plans from its actuary, Gabriel Roeder Smith & Co. The actuarial valuation results were determined as of July 1, 2018 and reflect all of the changes contained in the 2018 Omnibus Retirement Bill as well as positive investment returns through June 30, 2018.

The funding ratios are: 80 percent for the General Employees Plan, 89 percent for the Police & Fire Plan, and 98 percent for the Correctional Employees Plan.

These funding ratios represent the ratio of the market value of assets to the actuarial accrued liabilities for each plan. In other words, they represent the percentage of benefits that have been earned by plan members that are currently funded.

Making progress towards 100 percent funded plans is important. The results confirmed that as of the valuation date, all three funds are expected to reach full funding within the targeted 30-year time frame established by the legislature. Subsequent asset losses will have an adverse impact unless those losses are reversed by the next valuation date.