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Employer Newsletter of the Public Employees Retirement Association

PERA PHRASE

Over 3,500 Employers
166,000 Active Members

SPRING 2021

2021 Legislative Agenda

At its December meeting, the PERA Board approved the 2021 agenda for the legislative session that began on January 5, 2021. This year's agenda primarily focuses on issues the Board included in its 2020 legislative agenda, in addition to administrative changes.

PERA Administrative Bill

PERA's administrative legislation will allow us to continue to effectively and efficiently administer PERA's statute.

- The most significant change addresses how PERA administers leave purchases. The changes will enable a smoother process for both members and employers.
- Currently, employee leaves of absence are reported as they occur and members have the option to purchase missed salary or service credit up to one year from the date of their return from leave, or 30 days after termination, whichever is earlier. Under the proposed legislation, employers would report all employee leaves on a single annual file and allow the member until the end of the following calendar or fiscal year to make the purchase. Further, the timeframe for purchase following termination extends to 6 months. Employers who participate in PERA's furlough programs already use this process for their annual reporting.

Statewide Volunteer Firefighter (SVF) Fire State Aid

- Currently, entities within the SVF Plan are not eligible to allocate fire state aid towards employer contributions to the PERA Police & Fire Plan.
- The proposed legislation allows for an entity with a combination fire department to propose a fire state aid allocation plan for up to three years. A combination fire department consists of at least one career firefighter and one volunteer firefighter.

continued on page 2

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

ISSUE HIGHLIGHTS

2021 Legislative Agenda

continued from page 1

- The amount of fire state aid that can be allocated cannot exceed the entity's employer contributions for their career firefighters in the PERA Police & Fire Plan. The amount allocated cannot jeopardize the 100 percent funding status of the SVF Plan.

- The entity must notify the volunteer firefighters and PERA of the fire state aid allocation plan. The volunteer firefighters have a period of time to file a petition to stop the proposed fire state aid allocation plan. If no petition is filed, the fire state aid allocation plan goes into effect for the next calendar year.

Privatization Withdrawal Liability

- Eligible healthcare entities currently may privatize and discontinue participation in PERA without paying the unfunded liability attributable to their employees' benefits. The result is that upon privatization there is a shift of costs from that employer to the remaining employers and active members.

The proposed legislation requires a privatizing entity to pay a withdrawal liability that calculates the unfunded actuarial accrued liability for an entity's eligible active members by using current actuarial assumptions and the plan's funding ratio from the most recent actuarial valuation.

- The withdrawal liability amount would be amortized using current plan assumptions to develop an annual contribution sufficient to reduce the privatized employer's unfunded actuarial accrued liability to zero over a period of not more than ten years.

- The effective date is deferred to July 1, 2023, and expected withdrawal liability amounts would trend towards zero as the General Employees Retirement Plan progresses to fully funded status.

PERA Police & Fire Disability Benefits

The PERA Police & Fire Plan statute currently allows members who are over 55 with less than 20 years of service at the time of application to apply for duty disability benefits. These members, if approved, receive a non-taxable duty disability benefit equivalent to a 20-years-of-service benefit for five years. After five years, the benefit converts to a taxable retirement benefit.

Members who are under age 55 and have more than 20 years of service receive a non-taxable duty disability benefit only until they reach age 55 (normal retirement age) and are required by statute to transition to a taxable retirement benefit.

Members who are over 55 with more than 20 years of service are not eligible to apply for duty disability benefits and receive a taxable retirement annuity.

Under the current statute, members with less than 20 years receive a non-taxable benefit for the entire five-year period even though they are over age 55, while members who have more than 20 years of service may not receive a non-taxable benefit for a shorter time because they reach age 55. The legislation addresses the existing different tax treatment for duty-disabled members over age 55, depending on their years of service.

- The proposed legislation does not change either the disability eligibility requirements or the benefit amounts for any members.

- The proposed legislation addresses the disparate tax treatment of members who are over age 55 based on whether they have 20 years of service. All members who are over age 55 will receive a retirement annuity.

- Members who are over age 55 with less than 20 years of service who otherwise qualify for a duty disability will receive either a minimum 20 year retirement annuity based on a minimum of 20 years of service or their entitled retirement annuity based on actual service, whichever is greater as a retirement annuity. This change makes the tax treatment consistent for all members becoming disabled after age 55 regardless of their years of service.

- Members over 55 who are eligible for a regular disability benefit will receive a retirement annuity based on a minimum of 15 years of service or their retirement annuity adjusted for vesting purposes, whichever is greater. As a regular disability benefit was considered taxable, a regular disability retirement annuity remains taxable.

- The recommended changes do not apply to regular-total permanent or duty-total permanent benefits.

2021 IRS Compensation & Contribution Limits

Restrictions affect small percentage of employees

The Internal Revenue Service (IRS) limits compensation applicable to qualified retirement plans in Section 401(a)(17) of the Internal Revenue Code (IRC). Benefits payable from Defined Benefit (DB) Plans and contributions made to Defined Contribution (DC) Plans are limited under Section 415 of IRC. Compensation, benefit, and contribution limits are all adjusted annually.

For calendar year 2021, IRC Section 401(a)(17) limits compensation subject to retirement contributions to $290,000 for members of PERA's DB Plans (General, Correctional, and Police & Fire) who initially became plan members on or after July 1, 1995. The limit for employees who were initially enrolled in a DB Plan before July 1, 1995, is $430,000.

IRS Section 415(c)(1)(A) limits the annual contributions a person may make to a DCP. For 2021, that limit is $58,000. The retirement contribution limit represents the annual maximum amount of combined DCP employee and employer contributions that may be credited to a member.

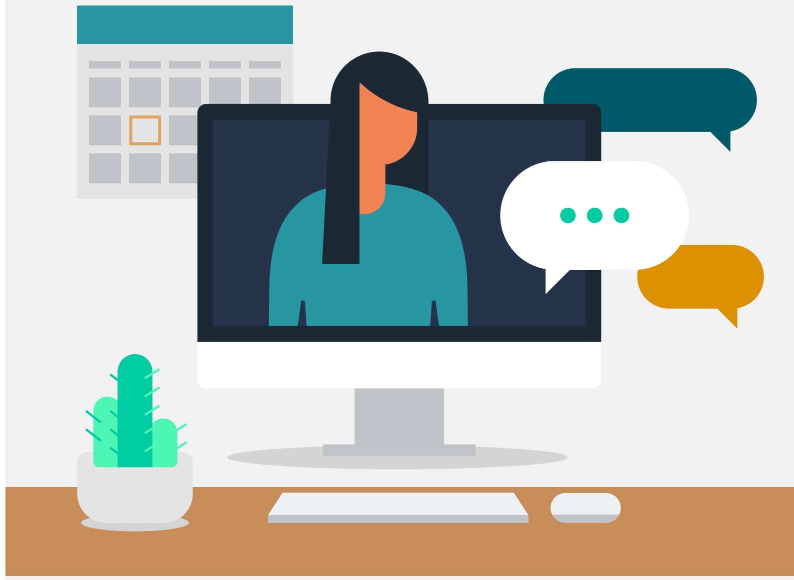
Salary and Contribution Monitoring

The federal limits affect only a small percent of covered employees; however, employers and PERA have a responsibility to monitor each member's salary and retirement contributions against these limits.

Please advise us immediately if you stop contributions for a DBP member whose salary has reached the IRS limit. At the end of the year, we will contact you to confirm whether to apply service credits for the months that were without PERA deductions.

PERA also reviews reported earnings and deductions annually to verify compliance with the federal provisions. If we find that an employer has reported compensation or contributions in excess of the annual limits, the overpaid employee and employer amounts will be refunded.

New! Free Educational Webinars for Employers



New to PERA reporting? Getting started can seem daunting. That's why we're launching *Welcome to PERA Reporting*: a free, ongoing educational webinar designed to demystify the PERA process for employers.

In *Welcome to PERA Reporting* you will learn:

- How to sign up and use the Employer Reporting and Information System (ERIS)—a secure online tool where you can enroll members, update member data, submit contribution data, and more
- How to complete your contribution reports
- Information on plan eligibility, enrollments, and updating employment status

Click here to register!

Correction: In the "Election Workers" article in the Winter 2020 edition of PERAphrase, we stated that election workers in Minnesota whose pay in a calendar year is less than $1,800 are not subject to Social Security and Medicare (FICA) coverage. The $1,800 threshold is incorrect; the correct threshold is $1,900. For more information, visit the Social Security Administration's Election Workers web page.

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Ask PERA!

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

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1-888-892-7372 (toll-free)

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

Website
www.mnpera.org

Q. A full-time employee has been on an unpaid medical leave and was recently cleared to work one day per week. Their earnings will be below 50% of their regular salary. Should PERA contributions be deducted from this pay?

Yes. Pay for hours worked is always eligible salary. The 50% guideline applies to the use of accrued sick or vacation time to cover missed hours when a member is not working due to a medical leave. In that case, the pay is eligible for PERA if the person receives at least 50% of their average regular salary.

The member in this case is actually working and not using paid leave. These wages are PERA-eligible salary, and contributions should be withheld immediately.