Retirement Roundup

"Providing Information to Judges, State Patrol & School Employees"

Nebraska Retirement Systems Vol. 16, No. 4, Spring 2001

In this issue...

Say Good-bye to a Familiar Face

After educating thousands of Judges, State Patrol, School, County and fellow State employees in retirement matters, Louise Weyer is getting the opportunity to put some of her knowledge to the test!

As of February 23rd, Louise has retired from the Nebraska Public Employee's Retirement Systems, where she has been employed over 13 years! Louise has spent the past ten years traveling across the state educating the Retirement Plan Members as part of the Preretirement and Personal Planning seminars. Louise stated, "I will really miss the people, but not the traveling"!

In addition to the seminars, Louise was also the manager of our agency's Education Services department, which included duties such as, editing the agency newsletter and overseeing the publication of retirement plan booklets and other agency publications. Her many accomplishments during her career include, 1989 Employee of the Year, 2000 Manager of the Year and receiving her Certified Retirement Counselor (CRC) through INFRE in 1999.

Louise has great faith in the future of the Retirement Systems' and its leadership, stating, "The new Technology Plan is going to be awesome! With the combination of the staff, leadership and new technology, it couldn't be better"!

Nicknamed "Shorty" by those closest to her, Louise will long be remembered for her upbeat personality and team spirit. She will be sorely missed by her co-workers as well as members across the state. We wish Louise and her family all the best! ■

Technology Plan Update

The NPERS information technology project continues to make excellent progress towards our goal of installing state-of-the-art automated systems that will significantly improve our ability to manage member accounts. We have just completed the final installation and test phases of an electronic document image management system. This system allows us to convert paper documents into digital images and to electronically manage member documentation. This is a significant step towards reaching our goal of a "paperless office."

Several other improvements and additions have been implemented during the past year. A new call center has been established that has improved response time to member telephone inquiries. An Internet benefit calculator is now available through our Web site to provide online retirement estimates for School Plan members. These estimates are currently based on data provided by the member. However, by the end of our technology initiative real-time estimates based on actual member information contained in our database will be available. We are actively working on estimate calculators for all of the other plans, and these will become available in the near future. Finally, our web site continues to be updated and revised with new options and information. Some forms are already available for electronic download, and more are added as they are revised.

We are now beginning the next major phase of

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Compensation and Retirement for Nebraska School Employees

Retiring members in the School Employees Retirement System often wonder about the method by which "final average compensation" is decided. NPERS uses the money determined to be "final average compensation" to calculate the retired member's benefit. Although the definitions are complex, the basic process is fairly simple:

(1) In order for money to be counted, it must first be determined to be "compensation" – i.e. it has to fall within the statute's definition of "compensation;" and

(2) If the money is "compensation" then it must be tested against the prior year's "compensation" to assure there has not been too much of an increase.

This article will examine each step in detail.

Step 1 – Is the Money "Compensation?"

In the school retirement system, "compensation" means "*gross wages or salaries payable to the member for personal services performed during the plan year*." Neb. Rev. Stat. § 79-902(37)(a). The definition specifically *includes* such forms of pay as (a) overtime pay, (b) member retirement contributions, and (c) contributions by members to IRC §§ 125, 403(b), and 457 plans. However, several types of other monies received by members from their employers are **excluded** – such as:

- Unused sick leave converted to cash payments;
- Unused vacation leave converted to cash payments;
- Insurance premium converted into cash payments (if *not* a part of a § 125 plan);
- Reimbursement for expenses incurred;
- Fringe benefits;
- Bonuses for services not actually rendered – which includes the following
  - Early retirement inducements;
  - Cash awards;
  - Severance pay (with certain exceptions if ordered by a court);
- Amounts that NPERS determines were fraudulently obtained;
- Amounts of compensation that are beyond IRS-defined limitations.

Step 2 – Can the "Compensation" be used to determine a benefit?

Once NPERS determines that money is "compensation," NPERS can apply the definition of "final average compensation" to determine if the "compensation" may be used to calculate a member's retirement benefit. Neb. Rev. Stat. § 79-902 (32).

In deciding "final average compensation," the statutes require NPERS to use "the three fiscal years in which such compensation was the highest divided by thirty-six." NPERS adjusts the amount of compensation used in the three highest fiscal years to exclude compensation that "exceeds the member's compensation with the same employer for the preceding fiscal year by more

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School Reporting Agents

As we explained in the last edition of the "Retirment Roundup," we will be involving you in the process of designing our new computer systems, which will allow us to develop a system for transmitting membership contributions and data electronically.

One of the first steps in your involvement is the new Manual for Authorized Reporting Agents. We have made the changes to the new manual and are preparing it for mailing even as this newsletter is being written. Hopefully, you will already have received it by the time you receive this news. We are hoping that this manual will be useful to you in answering a lot of your basic questions. We anticipate that, as our technology plan progresses, our systems and procedures will go through many changes as well. As these changes occur, we will do our best to keep you informed by sending updated pages to replace corresponding pages in your manual.

In April, you should have received a survey/questionaire, which was developed in an effort to raise the understanding of employers, bookkeepers and others responsible for enrolling members in the plan. It is imperative you complete and return this survey if you haven't already done so. By taking your responses into consideration while implementing our new technology plan, we will increase the ease of reporting and reduce the potential of error.

We are currently in the planning stages of our Employer Education training sessions and hope to announce those dates very soon.

Once again, we appreciate your patience and cooperation during our "reconstruction." With a little work and a lot of understanding, we will all be able to reach our goals!

Actions from the Legislature

Governor Johannes signed **LB 711** and it becomes effective on May 2, 2001.

LB 711 changes benefit provisions as follows:

(1) LB 711 changes the cost-of-living adjustment ceiling for annual adjustments to retirement benefits in the Judges, State Patrol, and School Retirement Systems from 2.0% to 2.5% (or the change in the consumer price index, whichever is less).

(2) LB 711 changes the formula annuity multiplier in the school plan from 1.9% to 2.0%.

(3) LB 711 provides a new death benefit for school plan members. It allows a surviving spouse who is the sole named beneficiary of a school-plan member to choose as a death benefit either a refund of contributions plus interest and an additional 101% of the accumulated contribution balance plus interest or an actuarially-reduced annuity, if the school plan member had between five and twenty years of service credit and died before retirement. The death benefit for members with less than five or more than 20 years of service credit has not changed.

In order to take advantage of the new 2.0% multiplier, a school plan member must be employed by a participating school district on May 2, 2001, must acquire at least one-half year of service credit during a fiscal year beginning on or after July 1, 2000, and must retire on or after May 2, 2001.

LB 408 also passed earlier in the legislative session. That bill changes the way in which service purchases are made in the three defined benefit plan. LB 408 takes effect on July 1, 2001. Please check the next issue of the *Retirement Roundup* for the details on LB 408.

LEGAL CORNER

by NPERS Legal Counsel,
Shawn Nowlan

Qualified Domestic Relations Orders Explained

Unfortunately, divorces from time to time occur among members of retirement plans, and in many such cases the pension assets NPERS administers need to be divided.

The Nebraska Legislature has created a special method to divide pension assets in Nebraska governmental pension plans. This method is codified in the "Spousal Pension Rights Act," Neb. Rev. Stat. §§ 42-1101 to 42-1113. Whenever a member's assets under a pension administered by NPERS needs to be divided, the attorney involved should review these sections of the law *before* they write a domestic relations order. It is also helpful to contact the Retirement Office for assistance.

What is a QDRO?
A "qualified domestic relations order" (QDRO) is one that has been approved by NPERS and is therefore effective in dividing pension assets in one of the NPERS-administered plans. A QDRO is important because pension assets are normally immune from all processes of law except a QDRO. This means that an ordinary court order will not effectively divide pension assets.

More than just a Divorce Decree or Property Settlement
Divorce decrees and property settlements, although effective for most purposes *do not* divide pension assets unless they include a QDRO. Once the judge has created a QDRO, it must be sent to NPERS to be approved, and *only* when NPERS approves it does the order actually divide the pension assets.

If I have a QDRO, when can I get the money? Do I have to wait?
The person who receives a share of a member's account through a QDRO is called the "alternate payee." Becoming an alternate payee gives the former spouse certain rights in the pension assets, but does not mean he or she will have immediate access to the money.

There are two ways an alternate payee can gain access to the pension assets:
(1) If the member quits work (at any time); and
(2) If the member is 50 years of age or older.
If a member is under 50 and working, the alternate payee *cannot* gain access to the pension assets.

Rights of an Alternate Payee to a Benefit
When the Alternate Payee is able to gain access to the assets, the method of payment depends on what options the member is entitled to at the time the alternate payee *makes application* for the assets. For example, if a member could only receive a refund of contributions, the alternate payee will only be able to receive a refund of contributions. But if the member is entitled to a retirement annuity, then the alternate payee can also apply for a retirement annuity.

Further Questions Answered
If you have any questions about how a QDRO works, please contact Shawn Nowlan at (402) 471-2053 or outside Lincoln at 1-800-245-5712.

Compensation *(Cont. from page 3)*

than ten percent." However, there are two situations in which the statutes allow *all* compensation to be included: (1) if a member experiences a "substantial change in employment position," or (2) if the increase in compensation comes "as the result of a collective-bargaining agreement between the employer and a recognized collective-bargaining unit or category of school employee." The "collective bargaining" exception was new in 2000. There has been almost no need to apply it.

"Compensation" and withholding Employee Contributions

The definition of "compensation" outlined in Step 1 also applies to retirement withholdings. This means that employers should only withhold retirement contributions on those parts of the paycheck that are "gross wages or salaries payable to the member for personal services performed during the plan year." If members wish to know if a particular portion of their pay is subject to retirement withholding, they should contact the NPERS office at (402) 471-2053, or (800) 245-5712.

In summary, if money is not "compensation" it cannot be used to calculate a benefit, but it also is not subject to retirement withholding. The definition of "final average compensation" is adjusted if a yearly increase is greater than ten percent, with certain exceptions. Once "compensation" has been determined, and adjusted as "final average compensation," NPERS can determine the benefit for retiring members.

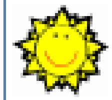
Prepared by Shawn P. Nowlan, NPERS Legal Counsel

Tech Plan *(Cont. from page 1)*

our project. A contract will be awarded in the next few weeks for the development and implementation of a comprehensive information management system. This project will integrate into one unified system most of the data management and processing systems currently in use by this office. When complete, automated systems will be in place that will allow us to rapidly and accurately respond to and track member requests, and efficiently manage the growing number of member accounts.

It is possible we may run into an occasional "snag" during this transitional period and we appreciate your patience and understanding. After this project is completed, it is sure to benefit everyone involved!

Summer Session 2001



Preretirement Seminar Calendar

May 30	-	Kearney
May 31	-	Grand Island
June 5	-	Omaha
June 6	-	Lincoln
June 7	-	North Platte
June 13	-	Omaha
June 14	-	Norfolk

The summer registration brochure was mailed to all eligible members at their home address on April 26. Please contact us if you did not receive a brochure.

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