Retirement Roundup

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

Nebraska Retirement Systems Vol. 17, No. 4, Spring 2002

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PERB Takes Action on School Volunteering

NPERS recently issued a bulletin to all Nebraska public schools regarding a "practice" started by some School Plan members to try to initiate retirement benefits and yet continue to work. In brief, a member and school district agree that a member will resign from his or her position, begin receiving retirement benefits, and yet will immediately continue filling the position on a volunteer basis. After a 180-day period has passed, the member is re-hired to fill the position as a regular employee. In these cases, the member has performed the duties of a particular position while having a 180-day break in compensation only, not in services rendered.

"...IRS has issued guidance that would indicate continuance of services even without the same level of pay could result in a ruling that the member has not had a bonafide separation from service."

This practice raises serious federal tax issues. According to Neb. Rev. Stat. §84-1503, NPERS and the Public Employees Retirement Board (PERB) must administer the School Plan "in a manner which will maintain the plan's status as a qualified plan pursuant to the Internal Revenue Code." If a member never ceased performing the duties of a position, the IRS has issued guidance that would indicate continuance of services even without the same level of pay could result in a ruling that the member has not had a bona fide separation from service.

In exchange for certain tax advantages, the IRS has rules on how members may receive benefits from the retirement plan. Compliance with asset/benefit distribution rules is the price a qualified plan pays to take advantage of the lifelong tax benefits received through participation in a qualified plan.

Among the benefit payment rules and policies created by the IRS is that, prior to normal retirement (age 65 in the School Plan), assets of the pension plan can be paid to members in the case of a "bona fide termination of employment." The IRS has also stated that when an employee continues in the employment of the employer after receiving payment of his interest in the plan, there is no separation from service.

Because of these IRS rulings, and to comply with plan requirements, the PERB passed a motion at its January 2002 meeting regarding a specific case involving a School Plan member. The Board moved that the member's retirement benefits be discontinued and the member be required to repay retirement benefits received to date. The PERB also ordered that anyone now working on a volunteer basis in a Nebraska school in a position from which he or she had retired should be notified that reemployment in that position which is now being filled on a voluntary basis will cause a termination of retirement benefits.

School District Implications

1. All School districts should be aware that if a member or school district has engaged in actions that appear to bring into question the bona fide nature of a member's termination, then NPERS will not allow that member's retirement benefit to begin, or if begun, to continue.

2. If any school district plans to use recently-retired members as volunteers or wishes to hire those who have volunteered their services during the 180-day period for a

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Member Services

Your link to Nebraska Retirement Systems

If you pay a visit to our office, you will be greeted by our receptionist, Margaret, who is one of the representatives that make up the Member Services Department for the Nebraska Public Employees Retirement Systems (NPERS). If you visit our office or call to discuss your retirement account, chances are, you will speak to one of the helpful representatives in our Call Center, which is also part of Member Services.

Call Center Representatives rely on their knowledge of a wide range of topics to assist you. They are trained to help you with the following:

- Pension estimates
- Retirements
- Refunds
- Purchase of Service
- Account Statements

as well as many other various tasks.

Member Services Representatives (from left to right): Margaret, Lori, Manager Jane, Teresa and Peggy, (not pictured) Brenda

Member Services Representatives can access information in our computer and imaging systems to look up a wide range of details related to your account. Be aware that for your protection, our representatives cannot share detailed account information with you by telephone.

Representatives are trained in all six plans our office oversees, as well as multiple tasks and procedures for each plan. They are always prepared to take your calls, trouble-shoot problems, answer questions, and research your situation. If they don't have an answer, they will go to the NPERS expert who does!

Since not all situations may be solved with a phone call, you may also schedule an appointment to speak face-to-face with a Member Services Representative. In-office appointments allow for a visual explanation and for you to bring your spouse, financial advisor, or other guest with you.

Our Call Center is in operation Monday through Friday, 8:00 a.m. to 5:00 p.m. at **800-245-5712** or **402-471-2053**.

Although the Member Services Department has only been in operation for two years, the representatives have a combined total of 42 years of experience in different areas of the Retirement Office. They are truly dedicated to serving our members.

Volunteering

(Cont. from page 1)

break in service, that member's retirement benefit can be in jeopardy. These situations will be handled on a case-by-case basis, to assure the member's employment has been actually severed.

3. The school district should be aware that if NPERS determines the member did not have a bona fide termination, the member's retirement benefit will be discontinued, and the member will be asked to reimburse the School Plan for benefits paid.

4. If a member or school district has any questions about a particular arrangement, NPERS will examine the proposed arrangement and the facts and circumstances surrounding it, asking for further information if necessary. Once all relevant facts and circumstances have been considered, NPERS may issue an opinion that approves or disapproves the proposed arrangement.

Tax Advantages of a Qualified Pension Plan

Members of the School Plan enjoy the following tax advantages because the plan is "qualified:"

- *Members pay no income tax* until benefits are distributed regardless of whether the member has a forfeitable or nonforfeitable right to the contributions made on their behalf. (By contrast, in a nonqualified plan, tax liabilities accrue as soon as an employee has a nonforfeitable right to the contributions.) Furthermore, in a governmental plan (such as the School Plan) *employee contributions* can be "picked up" in such a way that they are not included within the taxable income of the members. In other words, *the taxable income of members during their active career is significantly reduced by the use of a qualified pension plan.*
- *Rollovers* (lump-sum distributions that are not required distributions) from the plan can also *be given special tax treatment*, because of the qualified plan status (i.e., *members are able to roll the money into a tax-qualified account and avoid income tax* on it until the time of a required minimum distribution).
- Annuity and installment payments are *taxable only as received* (i.e., *members do not pay income tax on their benefits until they receive the checks*.) By contrast, in an unqualified plan, the entire amount becomes taxable when the member has a nonforfeitable right to the benefit.
- The funds and assets of the plan, while they are in the plan, earn and compound income on a *tax-free basis*. *So long as monies remain in the plan, they are not taxed*.

The PERB has taken these actions because of the IRS's regulations that terminations be "bona fide," and the need to maintain the qualified status of the plan, and also because plan members should be able to keep these tax advantages.

Keep Us Informed

Moving to a new home? Having a baby? Getting married? It's important to keep NPERS informed. It is critical we keep our records up-to-date so we know where to send your statements of account and other information. You must contact us to tell us your new address. (Members currently receiving a benefit of any kind must provide a change of address to us in writing.) It is also important to keep your beneficiary designations current. Ask your employer for a new beneficiary designation form, or download one from our web site, fill it out, have it notarized, and send it to NPERS.

Former Employees May Have $ Here

If you know someone who at some point worked in a Nebraska public school, please tell them NPERS may have some money for them. There are 2,937 school members, three judges and one patrol member that are inactive (members that are no longer working), who have money in their accounts, and have not given us their forwarding address.

As part of our data purification initiative and PIONEER, our technology project, we are searching extensively for addresses of these inactive members. NPERS is holding over $16 million in inactive accounts from which these members could be eligible to receive a retirement benefit.

Please encourage these former employees to visit our web site to view the list of names. If they discover their name on the list, they should contact us with their current address. For those who don't have Internet access, call and we'll check the list for you. To contact NPERS, call **800-245-5712** or **402-471-2053** or online: **www.nol.org/home/pers.**

Preretirement Seminars Summer Schedule

North Platte	May 29
Kearney	May 30
Grand Island	June 5
Lincoln	June 6
Norfolk	June 12
Omaha	June 13

Legal Corner

by NPERS Legal Counsel,
Shawn Nowlan

Changes made by Legislative Bill 407

On April 11, 2002, the Legislature passed LB 407, which includes some technical changes to the Judges and Patrol Plans, and several extensive changes to the School Plan. These changes are outlined below:

Judges Plan & State Patrol Plan

Changes in the Judges and State Patrol Plans are:

- The funding method used in preparing the annual actuarial valuation is changed from the "Frozen Entry Age Method" to the "Entry Age Method."
- When a member who returns to active employment wants to repay his/her refund from the plan, he or she may now:
    - Roll money into the plan from a 457 deferred compensation plan or a 403(b) tax-sheltered annuity, or
    - Use a trustee-to-trustee transfer from one of the above types of accounts without a termination of employment.

School Plan

Changes in the School Plan are more complex and far reaching and include (among other technical changes):

- Several legally-separated funds containing contributions from employers, employees, the State and assets used to pay benefits are combined into one fund.
- The employee contribution rate of 7.25% of pay is fixed (and employers continue to pay an amount equal to 101% of employee contributions). Any other actuarially required contributions will be paid by the State.
- The funding method used in preparing the annual actuarial valuation is changed to the "Entry Age Actuarial Method."
- Participation requirements are changed so that all employees who work at least 15 hours per week on an ongoing basis must contribute to the plan, regardless of how many hours they accrue in the year. (This abolishes the 516-hour annual requirement).
- Clarifies that temporary employees and substitutes who are not hired on a regular basis may not participate in the retirement plan.
- Those participating in the plan earn service credit on a monthly basis, with 1,000 hours of service equivalent to one year of creditable service; employees who are salaried receive the same percentage of credit as their percentage of full-time equivalency. If you contribute to the fund, you will receive credit, based on the number of hours you work.
- The definition of "final average compensation" is changed to refer to the three highest "12-month periods" – so that compensation is not tied to fiscal years –thus becoming more like the Judges and State Patrol plans.
- The 10% cap on annual increases in salary is moved to the definition of compensation – this means that increases (unless an exception applies) above 10% are not counted as "compensation" and should not have contributions remitted on the excess compensation.
- When a member who returns to active employment wants to repay a refund or purchase other types of service credit, they would now:
    - Roll money into the plan from a 457 deferred compensation plan or a 403(b) tax-sheltered annuity, or
    - Use a trustee-to-trustee transfer from one of the above types of accounts without a termination of employment.

Employer Education and Reporting

The "Employer Education and Reporting" section is intended for ***Authorized Reporting Agents.***

Employer Workshops Announced for Schools – In June, NPERS will hold six employer education workshops for schools. Started last year with almost 300 participants, the 2002 workshops will cover changes in law, forms and procedures, and will feature a demonstration of PIONEER, our technology project. **A registration brochure will soon be mailed to all schools**. Once again, there is **no charge** for the workshop, although lunch is available for $6.00.

Workshops will be held at the following locations:

Norfolk	-	**June 18**	**Kearney**	-	**June 25**
Lincoln	-	**June 19**	**Gering**	-	**June 26**
Omaha	-	**June 20**	**North Platte**	-	**June 27**

Correct Payroll Information - As a reminder, please ensure your submission of payroll information is correctly documented with last name first, a comma, then a space, and finally the first name. (LAST NAME, FIRST NAME)

Correct Addresses/Membership Registrations, Etc. – We recently mailed to over 60% of Nebraska schools a report listing their employees contributing to the plan for which we do not have a valid address. We remind those schools to use that report to provide our office with correct addresses. Excel files on diskette are available upon request. The form also shows our receipt of membership registrations and copies of birth certificates and Social Security cards. Your help is needed to get these important items to us for our records.

LB407 – Passed by the Legislature on April 11, 2002 (see Legal Corner on page 3), this bill modifies the $50 fee for late remittances to a flat rate of $25 plus an amount that increases each day that money is late (an optional fee to be assessed at NPERS' discretion). LB407 also abolishes the $50 fee for not filing a Membership Registration.

Questions? When you have specific questions on employer reporting, contact **Cheryl** at **402-471-9497**, or Toll Free at **1-800-245-5712**.

New Options Now Available

The new retirement benefit options for members of the School Plan are now available. NPERS received notice from the Secretary of State's Office that the rule and regulation to revise the option selection is filed and became effective April 1, 2002.

The options were announced in the Winter 2002 Retirement Roundup and are described in the new School Plan Booklets mailed to members in February. Now, when School Plan members retire, they can select either the Life Only Option, Modified Cash Refund, Period Certain and Continuous (5, 10 or 15 year) Option, Joint and Survivor Annuity (at 50%, 75% or 100%), or Non-Spousal Joint and Survivor Annuity. Remember, all the options offered in the School Plan provide a retirement benefit for the member for as long as the member lives. By selecting an option, the member chooses what is left for his or her beneficiaries when the member dies.

To help with choosing retirement options, we urge you to use the Benefit Estimator on our web site at **www.nol.org/home/pers**, or write to our office for estimates.

PIONEER Progress

We're making substantial progress toward installing a state-of-the-art, automated system to significantly improve NPERS' ability to manage member accounts. If you recall, we named our system PIONEER.

NPERS has contracted with Covansys, a global technology services company, to build the automated system. The data gathering and reporting portion of PIONEER is approved and the design is currently in construction. This part of the system handles posting of employers' and employees' contributions and maintenance of plan members' accounts. We expect this "employer reporting" portion of the system to be up and running by January 2003.

NPERS is implementing the project in 4 phases, with completion scheduled for 2004. PIONEER, with its easy to use, web-enhanced functionality, will allow NPERS to:

- Use imaging capabilities to streamline filing and retrieval of, as well as response to, member correspondence
- Streamline processes used to meet members' needs and respond to questions
- Process applications and provide estimates more quickly and accurately
- Receive contributions electronically from employers using a web interface
- Automate most benefit processing and contribution error checking.

NPERS will continue to keep you informed of PIONEER progress.

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Nebraska Retirement Systems
1221 N Street, Suite 325
P.O. Box 94816
Lincoln, NE 68509-4816
402-471-2053
Toll-Free 1-800-245-5712
http://www.nol.org/home/pers
Director: Anna J. Sullivan
Editor: Jan E. Fox
Asst. Editor: Pam Williamson