Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Retirement Systems

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Should You Be Participating?

After you read about changes and improvements in the state's IRS Code Section 457 **Deferred Compensation Plan** (DCP) (see Legal Corner, page 3), the question to ask yourself is: **"Why am I not participating?"**

With DCP, you can boost your personal savings and add to your financial security, all on a pre-tax basis. Personal savings are becoming increasingly important as an addition to a pension benefit, especially since Social Security will only partially fund your retirement.

So what exactly is DCP? It's a *voluntary* plan whereby you authorize your employer to reduce your taxable wages by *deferring* an amount you choose, based on the limits allowed by law. This tax deferred portion is set up in an account and invested. Upon retirement or termination, you may remove funds on a systematic basis, purchase an annuity, withdraw the savings trough a lump sum or rollover payment, defer withdrawal to a later date or elect a combination of any of these options.

The benefits of DCP are many. State employees may defer as little as $25 a month, or as much as $11,000 a year. Contributions are pre-tax which lessens the "hit to your paycheck" and lowers the salary reported to the IRS, thereby reducing your income taxes. At retirement when you start drawing from your account, the proceeds are taxed as ordinary income, which is when most participants typically fall into a lower tax bracket.

In DCP, you may choose from the same eleven investment options offered for your regular retirement plan. You can increase, decrease or stop contributions at any time.

It's easy to enroll and there is no waiting period. So, what are you waiting for? State employees may contact their employer and request an enrollment packet. County employees should ask their County Clerk if their county offers a DCP plan and read the article on page 4.

Value of Pre-Tax Savings

	Pay w/o DCP Contributions	Pay with DCP Contributions
Monthly Pay	$ 2,000	$ 2,000
5% DCP Contribution	$ 0	$ 100
Taxable Pay	$ 2,000	$ 1,900
Less Federal & State Tax (Assume 15% Fed & 5% State)	$ 400	$ 380
Take-Home Pay	$ 1,600	$ 1,520
Difference in Take-Home Pay		$ 80

It only costs $80 to save $100 in DCP!

2002 Legislative Update

By Shawn P. Nowlan, NPERS Legal Counsel

Since the 2002 Legislative session began, the Legislature has amended almost all changes to the State and County Plans into **two** bills. ***Remember, these proposals have not yet passed.*** To see which proposals became law this year, check future newsletters and our web site.

Legislative Bill 407 *makes several substantive changes to the plans.*

Changes to County Plan

- The age of voluntary participation for part-time employees is lowered from 25 to 20.
- The late fee if counties don't report to NPERS on time is modified to allow for greater flexibility– consisting of a flat rate ($25) plus an amount that increases each day that money is late. (This is an optional fee to be assessed at NPERS' discretion.)

Changes to State Plan

- The requirement of mandatory participation is changed *from age 30 and 24 months of continuous service* to *any age with 12 months of continuous service.*

Changes to Both Plans

- Investment options allow for greater flexibility in mixing international and domestic instruments within the portfolio (changes for both employee and employer accounts).
- Repayment of termination benefits allows for a quicker restoration of forfeited employer funds.
- New tax rollover language is added allowing money to be rolled to and from 457 and 403(b) plans, and a new section allowing trustee-to-trustee transfers.

Legislative Bill 687 *has been prioritized by Senator Stuhr. It proposes major changes to the State and County Retirement Plans.*

General Changes

- The vesting period in both plans is lowered from 5 years to 3 years of participation in the plan.
- The contribution rate is raised to a flat 4.8% of employee compensation (this change is delayed to 2005 for the County Plan).
- A "Cash Balance Element" is added to the State and County Plans – it serves as an alternative to the current Defined Contribution Element.
- The "Cash Balance Element" would allow the plan to self-annuitize retirement payments – including offering an inflation protected annuity with a 2.5% COLA. This feature allows members a greater choice of annuity options.

Cash Balance Element Explained and Summarized

In order to understand what a Cash Balance Element is, one must understand the two traditional types of retirement plans. These are the Defined Benefit Plans and the Defined Contribution Plans:

- In a traditional *Defined Benefit (DB) Plan*, the member receives a "formula benefit," based on years of service, a multiplier and the member's salary. The contribution rate is not directly tied to the benefit the member receives; instead, the contributions are a prudent way to provide money to pay for the legally promised benefit. The risk of market falls and the benefits of market gains flow to the plan as a whole, rather than to individual members.

- In a traditional *Defined Contribution (DC) Plan*, the members are promised a percentage of their paycheck will be placed in the Retirement Account, and are provided an array of investment options. The member then selects his or her investments and awaits the end of his or her career. The risk of market falls and the benefits of market gains fall on the individual. Thus when he or she terminates or retires and takes his or her money, the members' benefit consists of the total sum of money in his or her account.

In the *Cash Balance Benefit proposed by LB 687* (as with a DC plan) the contribution rate matters in determining the final benefit. Each month, money flows into the plan and a statutorily-set rate of return is credited to the account. Both the contributions and the rate of return constitute legal promises to pay money to the member when the member ceases employment or retires.

Behind the scenes, the pension plan is investing the money flowing into the plan, so that it (plus the investment income) can pay the promised amounts to plan members when they cease employment or retire.

Thus the cash balance accounts (i.e. the promises) are growing independently of the actual assets of the plan. *At retirement, the member may "cash in" the entire amount of his or her account, or may use that sum of money to purchase an annuity from the plan.*

The risk of bad investment returns falls on the plan as a whole (as with a DB plan). If there is not enough money to pay the promised account balances, the Plan must turn to the State to make up the difference.

On the other hand, the benefits of extra investment income also flow to the plan as a whole. By federal law, however, these benefits must be used for the exclusive benefit of the members. The PERB decides whether to use the extra money to pay a little extra into the members' accounts, or – alternatively – the extra money could be used to make benefit improvements to the plan as a whole (with the Legislature making benefit enhancements).

For more information, contact our office at **800-245-5712** or **402-471-2053** or visit our web site at **www.nol.org/home/pers.**

Guard Against Identity Theft

Identity theft is the fastest growing type of robbery in the United States. A recent study estimated over 13% of Americans have been victims of ID theft and the number is growing. Identity thieves steal personal information and then use it to obtain credit, goods or services in your name.

If you discover someone has stolen your identity, it is up to you to contact credit bureaus, creditors and file a police report. Restoring your credit rating may be difficult and time consuming. For comprehensive information on ID theft and a complete listing of steps to restore credit, visit the Federal Trade Commission's ID Theft web site at **www.consumer.gov/idtheft/** or call **877-438-4338**.

Another excellent source of information on ID theft is available in Consumer Bulletins published by the Consumer Protection Division, Nebraska Office of the Attorney General, **www.ago.state.ne.us** or call **402-471-2682.**

NPERS is aware of the problem of identity theft and has taken steps to increase security and maintain the confidentiality of your records. Member Social Security numbers are no longer used in outgoing correspondence or emails, and will soon be removed from account statements. The Ameritas web site is a secure site accessed through NPERS at **www.nol.org/home/pers**, and requires both Social Security and PIN numbers for State and County members to obtain account information.

NPERS follows established methods to verify that anyone asking for a payment (i.e. benefit, rollover, lump sum, etc.) is, in fact, who they say they are and is legally entitled to the payment.

Confidentiality is a top priority and we will continue to monitor procedures to preserve your privacy.

Legal Corner

by NPERS Legal Counsel,
Shawn Nowlan

Economic Growth and Tax Reduction Reconciliation Act (II): Changes to the Section 457 Deferred Compensation Plan

Recently, I discussed how the State and County Plans were changed by the new "EGTRRA" tax bill. The area of greatest change came in the rules that apply when you participate in the State's § 457 Deferred Compensation Plan. With these changes, the plan is more like a private industry 401(k) plan, although there are still differences.

The changes were so extensive that the Internal Revenue Service will issue new rules and guidance on administering § 457 plans. These guidelines will be issued soon, but the IRS is not giving a specific date for release of these materials. In the mean time, NPERS is allowing certain changes to be made in "good faith" while waiting for the IRS to act.

"Good Faith" Changes in the § 457 Plan

NPERS will make changes "in good faith" in the way the § 457 Plan is administered before the IRS issues its guidance, as follows:

1. Members will be able to defer the new maximum compensation amount for the year it is allowed under the federal provisions – i. e. the lesser of either 100% of includable compensation or one of these three limits:
   (a) $11,000 for most members,
   (b) $12,000 if a member utilizes the new "after age 50" catch up, or
   (c) $22,000 maximum if a member decides to utilize the three-year catch-up allowed in the last three years before retirement.
2. In the past, members were forced to make an election on what to do with their accounts within 90 days after termination, but this rule no longer applies. Members of the 457 Plan now have the same options as in their State Plan. Members may now:
   (a) keep the money in the Plan until age 70 1/2,
   (b) roll the money over into another tax-deferred account,
   (c) take the money as an ordinary lump sum distribution or systematic payments which are included in your taxable income, or
   (d) take a combination of the various options.
4. If a member made an election under the old rules (prior to January 1, 2002) and still has money in the Plan, NPERS will allow that member to change the election and take advantage of the new distribution options.
5. If a member wishes to roll the account elsewhere, NPERS will allow the rollover into any plan that has been amended to allow rollovers from 457 plans (check with the plan to which you want to move the money, to make sure 457 rollovers are allowed).
6. NPERS will accept incoming rollovers from conduit IRAs, 401(a) plans, and 403(b) plans into the 457 Plan, but will wait to accept the amounts until our 457 plan can properly account for the incoming money.
7. With the new distribution options, the IRS will now require 20% of your (non-rollover) lump-sum distribution be withheld to pay the income tax on your distribution. In the past, this 20% was not withheld from 457 payments, although it was withheld from pension plan distributions.

If you have any questions about the new options, give NPERS a call.

Employer Education and Reporting

The "Employer Education and Reporting" section is intended for **County Clerks** and **State Agency Personnel**.

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)

Forfeitures - Forfeiture information for **counties** will be coming out in April.

Enrolling Employees in the Deferred Compensation Plan (DCP) - State agency personnel contacts should give all **new state employees**, upon hire, a DCP **enrollment packet**. (County Clerks, refer to article on this page.) Any employee (permanent or temporary, full-time or part-time) may participate in DCP. There is no age restriction or eligibility waiting period and participation may begin immediately. It is your responsibility to submit the completed forms to NPERS as soon as possible. The enrollment packet should contain:

- DCP Plan Booklet
- Annual Investment Report
- DCP Enrollment Form – NPERS8000
- Beneficiary Designation Form – NPERS1300
- DCP Change Form – NPERS8400

New Forms – Our re-design of forms continues using the template heading with demographic information. Revision dates are tracked on the lower, left corner of each form. Before submitting completed forms with original signatures to NPERS, please remember to check the appropriate plan type, retain a copy for your records and provide a copy to the member.

Form #	Title	Rev. Date
NPERS1030	State/County Enrollment Form	8/01
NPERS1300	Beneficiary Designation Form	9/01
NPERS2430	State/County Non-Contributing Member Form	8/01
NPERS8400	Deferred Compensation Plan Change Form	3/01
NPERS8000	Deferred Compensation Plan Enrollment Form	3/01

Remember to discard all old forms!

Questions? Contact these staff members when you have specific questions on employer reporting:

County questions - Clint	402-471-9497
State and DCP questions - Kim	402-471-9483
Toll Free	800-245-5712

Annual Investment Reports Are Coming!

Although we are running a little behind, the Annual Investment Reports are near completion and will arrive soon.

Attention County Employees!

Since 1999, County employees working for a county that **does not** offer a voluntary **deferred compensation plan** can participate in the State Deferred Compensation Plan, at the individual's request.

The investment options in the State DCP are the same as the eleven offered under the County Employees Retirement Plan. The three employer funds are not available to DCP members since there is no employer match for this voluntary plan.

County employees who are interested must inform their county clerk of their intent to participate in the State DCP. Upon notification from the County, we will begin the process and provide instructions and the appropriate enrollment forms.

Please contact your County Clerk or NPERS if you have questions.

Happy Spring!

RETIREMENT ROUNDUP

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