



# RETIREMENT NEWS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS | SEPTEMBER 2022

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## RETIREMENT NEWS

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# TOO SOON?



“That was wonderful. I wished I had known that when I started!” Consistently we get feedback from our pre-retirement members who attend seminars and webinars, saying that if only they knew the things they learned from the seminar *earlier* it would have helped them do more with their plans.

Timing can make a big difference. For example, retirement or financial planning is very time sensitive. You can never be ‘too early’ for it, since the sooner you start planning or squirreling away a couple bucks here and there, the less you will need to make big sacrifices to secure funding for your retirement goals. Planning will take know-how, which is why you want to understand your retirement plan. This helps you plot sound strategies and set achievable financial goals that will maximize your benefits. Recent changes to legislation have removed the age requirements for individuals to take a retirement seminar or webinar.

At the beginning of your employment and participation in the plan, you will have the opportunity to learn about your plan at a seminar or webinar. Essentially, this will make it so everyone participating can have access to the fantastic tips, tools, and teachings we offer regarding retirement. If you understand something, you use it better. Our goal is to give you the necessary knowledge to make your retirement a success and make your planning easier.

(Cont’d. on pg. 2)

# TOO SOON? (CONT'D.)

Why are we talking about this now?

**Because NPERS is offering web-based opportunities you can be a part of for FREE, coming up this fall 2022.**

*We are offering:*

## Two ½ Day School Plan Webinars

(9 am-12:30 pm CST)

October 27<sup>th</sup> and November 17<sup>th</sup>

## Three Evening School Plan Webinars

(6 pm-8 pm CST)

October 5<sup>th</sup>, November 8<sup>th</sup>, and December 6<sup>th</sup>

To register for a webinar:

Please send an e-mail to

[NPERS.SEMINARS@NEBRASKA.GOV](mailto:NPERS.SEMINARS@NEBRASKA.GOV)

with the following information about yourself:

- **NAME**
- **DATE OF BIRTH**
- **DATE OF WEBINAR YOU WISH TO ATTEND**
- **EMAIL ADDRESS YOU WISH TO HAVE ASSOCIATED WITH THIS WEBINAR**

If you want to get a jump on your retirement planning, it is never too soon to get started! These are FREE and only cost you a bit of your time.

## KEEP IT UNDER YOUR CAP!

BY JEREMY CALCARA, NPERS TRAINING SPECIALIST

When it comes to your benefit calculation in the School Retirement Plan and Tier 2 of the State Patrol Retirement Plan, many factors are taken into consideration, things like service credit, vesting, compensation and your age when you take your benefit. Many of the questions fielded by our agency concern something called salary capping.

Capping exists to discourage the practice of working large amounts of overtime or extra duty hours as one approaches retirement age for the purpose of inflating their monthly benefit amount. This practice is commonly known as *salary spiking*.

To curtail this practice, there is an 8% Salary Cap that is applied to the last five years of compensation when benefits are calculated. Although many assume that capping applies only to their three or five highest years of compensation, that is not the case. Salary capping applies to your final five years of employment.

Starting with your termination date, we count backwards 12 months, establishing your first year. We'll do that 4 more times to establish your five year capping period. We then count back one more year, a sixth year, to establish your base year. Your base year is what we're going to use to determine whether there's been an increase of greater than 8% during your final five years.

	ACTUAL	% INCREASE	CAPPING	RETIREMENT
BASE YEAR	\$50,000	N/A	N	\$50,000
YEAR 1	\$53,000	6%	N	\$53,000
YEAR 2	\$58,500	10%	Y	\$57,240
YEAR 3	\$62,400	8%	Y	\$61,819
YEAR 4	\$64,900	5%	N	\$64,900
YEAR 5	\$68,000	5%	N	\$68,000

### Here's an example :

We see in the chart in year 2, the individual in question received a 10% raise in their actual salary. At this point, capping would kick in, so for retirement calculation purposes, year 2 would be figured at \$57,240. Then in year 3, our individual's actual salary increased by 8% from the year before, but their salary was still capped for retirement purposes. Why is that? While the actual increase was only 8% and would not seem to be subject to capping, the actual increase was 9% more than the previous year's retirement calculation of \$57,240, so capping would still apply. However, in year 4, when our

member's actual increase is 5% (and less than 8% more than the previous year's retirement calculation), capping would no longer apply. Now you have a better idea of why it applies and how it is figured.

# THE GREAT... SUBSTITUTION?

One of the issues that NPERS hears about from schools more than anything else is the need for substitute teachers. It's not a secret that the shortage of teachers is a real problem for our Nebraska public schools. We realize that one of the best pools of people from which to draw substitutes is former employees, both employees who have retired or employees who have terminated employment from the school plan. This is completely fine if we do so according to the rules.

Terminating correctly, or having a bona fide termination from service, is of the utmost importance to the IRS and to NPERS, the plan administrator. Violation of these rules have consequences. While it's true these consequences are much worse if you have taken your monthly benefit (because that must be paid back), there are consequences for anyone who terminates, *even those who don't take money out of their retirement account*. The mandatory 180-day break in service applies to every single person who ceases employment.

**Does that mean you can't substitute?** Absolutely not, *we want you to substitute*. The intent of LB 147, as we see it, is to help schools have more access to substitutes. We simply want to make sure we terminate in the right way, knowing the proper reporting of service credit and compensation ensures accurate benefit calculation. Here are some Do's and Don'ts for correctly terminating employment.

## **DO make the most of your allotted 8 days of service per calendar month of the 180-day period.**

- 8 days of intermittent substitute or voluntary service can be provided each calendar month of the 180-day separation period required by the IRS to establish a bona fide termination. This allows the terminated member 48 days of valuable substitute or volunteer time over the period of separation. This applies to everyone, not just people who are

taking a distribution from their retirement account.

## **DON'T make arrangements to come back to coach, referee, or even train a replacement. (Unless you are voluntarily providing service without receiving wages as compensation.)**

- Verbal or written, this agreement is called a pre-arranged return to service, and it is illegal. The 8 days per calendar month of the 180-day period can only be used for substitute or voluntary service. Coaching and refereeing is considered regular service.

## **DO consider a position change if you want to substitute more than 8 days per month**

- If you would like to go from your current full-time position to become a permanent substitute (a substitute providing on-going or regular employment, in either a full-time or a part-time capacity), this can absolutely be done. It is important to note, this is not considered a termination, but a reclassification of your regular employment.

## **DON'T terminate, then substitute for an on-going position such as someone on maternity leave or a vacant position at the school.**

- This is also considered regular employment because it is on-going with, most of the time, regular hours. Acceptable substitute work will be less than 8 days per calendar month during the 180 period and is *temporarily* filling in for a regular employee who is unable to do their regular work that day.

NPERS is aware that it can be difficult to interpret statutes and regulations, particularly when it comes to employment following your termination. If you have questions on whether a situation is within the rules, please call us. We love chatting with our members and more than that, we love it when they make informed decisions regarding their retirement plan!

Questions? Call 402-471-2053 or 800-245-5712, option #1 for Member Services.

## TO WATCH FOR...

Something to watch for, if you plan to start taking your retirement benefit after **January 1<sup>st</sup>, 2023**, is the new W4-P tax form required by the IRS for taxation of annuity payments. Or if you are planning on taking required minimum distribution, lump sum payment, or rollover from your account, you may need to complete a W-4R.

If you are thinking about accessing these options, you may want to familiarize yourself with these forms at the IRS.GOV website. The instruction sheets on these forms are comprehensive and helpful. *NPERS' staff are not allowed to provide taxation advisement*

*or guidance*, so you may need to take these forms to your tax advisor for review, prior to requesting a distribution or annuity payment.

### *Federal Tax Forms:*

**W-4P** [irs.gov/pub/irs-pdf/fw4p.pdf](https://irs.gov/pub/irs-pdf/fw4p.pdf)

**W-4R** [irs.gov/pub/irs-pdf/fw4r.pdf](https://irs.gov/pub/irs-pdf/fw4r.pdf)

### *State Tax Form:*

**W4-N** [revenue.nebraska.gov/files/doc/forms/f\\_w4.pdf](https://revenue.nebraska.gov/files/doc/forms/f_w4.pdf)

## REMINDERS!

**Annual Statements** – One of the most important documents you receive from NPERS is your annual Account Statement. You should look your statement over carefully before you file it away with your other important papers. Contact NPERS if you believe there is an error on your statement. No matter how minor the error appears, we encourage you to write to NPERS stating the discrepancy.

**Current Address** – Statements are mailed to members' home addresses every year in August. Remember to notify your employer whenever your address changes since your current personal information is submitted to us by them. (Members

not currently working or who are receiving a retirement benefit should send a written, signed notice of address change directly to NPERS.)

**Beneficiary Designations** – The second page of your annual statement will list the beneficiaries currently on file. If your beneficiary listing is more than 15 years old, or you didn't provide social security numbers for them, or if you don't have beneficiaries listed, that spot will be blank on your statement. It is considered very sound advice to review and, if need be, send in a new beneficiary designation for your account every three to five years as life events may have changed the financial needs of you and your family. These forms can be found on [NPERS.NE.GOV](https://www.npers.ne.gov)

***\*If you are a State Patrol member, your beneficiary change process is different- contact your HR representative or NPERS with questions.***



P.O. Box 94816  
Lincoln, NE 68509  
85-28-51

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NEBRASKA SCHOOL, JUDGES & PATROL | SEPTEMBER 2022