

Norfolk County Retirement System

Payroll Procedures & Retirement Withholdings

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Membership

- ▶ Membership is mandatory for all full-time permanent employees working twenty (20) hours or more per week.
 - ▶ Documents needed:
 - ▶ Enrollment form;
 - ▶ Copy of birth certificate; and
 - ▶ Form explaining that their position is not covered by social security; and
 - ▶ DD-214 military form, if applicable.
- ▶ Membership exception - Employees over 70 years of age may opt out of membership.

Membership

- ▶ Chapter 32, § 4(1)(o), or commonly known as the under \$5,000 rule, provides that a municipal employee employed or elected in a position on or after July 1, 2009, receiving compensation of less than \$5,000 annually, shall not constitute *creditable service* for purposes of this chapter. However:
 - ▶ Employees or elected officials in a position after July 1, 2009 are not automatically excluded. They can join the retirement system if:
 - ▶ They are eligible by virtue of another position.
 - ▶ They are a permanent employee working 20 hours or more per week.
 - ▶ They are elected by popular vote and applied for membership within 90 days of election. They gain membership but not creditable service.
 - ▶ Employees or elected official in a position prior to July 1, 2009 are exempt.

Contributions Rates

- ▶ Contribution Rates are determined by membership date - the first date on which a retirement contribution was withheld and remains in the system; if a member has ever refunded his contributions, even if a redeposit is made, is subject to an updated membership date.

▶ <u>Membership Date</u>	<u>Rate</u>
Prior to 1/1/75	5%
After 1/1/75, prior to 1/1/84	7%
After 1/1/84, prior to 7/1/9	8%
After 1/1/96	9%

Contribution Rates

- ▶ All members with membership dates after 1/1/79 contribute an additional 2% of regular compensation in excess of \$30,000 annually. However, PERAC directs that anytime an employee earns an amount that would be greater than \$30,000 per year in a regular payroll cycle the additional 2% should be withheld. For example, an employee that earns more than \$576.92 per week or \$1,153.85 biweekly should have the additional 2% withheld even if the employee will not earn more than \$30,000 in that year.
- ▶ All new members should be enrolled at the current percentage rate (9% plus 2%), unless the retirement system approves a reduced rate.

Regular Compensation

- ▶ Pensionable earnings are defined as regular and recurring wages received for services rendered.
- ▶ Wages are an employee's base salary and/or other base compensation.
- ▶ Other base compensation is presently defined as:
 - ▶ Pre-determined, non-discretionary, guaranteed payments paid by the employer to similarly situated employees for services rendered.
 - ▶ Payments made by the employer to the employee because of:
 - ▶ The character of work
 - ▶ The employee's length of service
 - ▶ The time at which the work takes place
 - ▶ Educational incentives
 - ▶ Payments for training and licensing
 - ▶ Examples included, but are not limited to, hazardous duty pay, longevity, night differential, Quinn bill, defibrillator stipend and EMT.

Military Pay & Workers' Comp

- ▶ If you are paying an employee who has been granted a military leave of absence and is on active duty in the military, the difference between his or her base salary and his or her military pay, such payment is considered regular compensation and is subject to retirement deductions.
- ▶ If an employee is receiving partial pay because they are receiving workers' compensation, the partial pay is subject to retirement; workers' compensation itself is not pensionable.
- ▶ The retirement system should be notified of either instance.

Examples of Excluded Wages

- ▶ Some wages are excluded from pensionable earnings and, as such, retirement deductions cannot be withheld.
- ▶ These wages are payments that are NOT regular and recurring payments for services rendered and may be payment or reimbursement for a tool needed to complete the employee's work. Examples include, but are not limited to:
 - ▶ Overtime
 - ▶ Bonuses
 - ▶ Housing
 - ▶ Clothing allowance
 - ▶ Car allowance
 - ▶ Unused vacation and sick pay*
 - ▶ Severance
 - ▶ Other payments due at employee's retirement

*Stay posted for a possible change in annual payments for unused vacation or sick pay that an employee can sell back to the employer

Be Mindful

- ▶ Regular compensation may not be included in an employee's base pay.
 - ▶ Example = Longevity payment made in December
- ▶ Non-pensionable earnings can be included in an employee's base pay.
 - ▶ Example - Clothing Allowance
- ▶ To keep the retirement system aware of all payroll codes.
 - ▶ Also, point out when retroactive payments are issued to avoid the appearance of anti-spiking
- ▶ When in doubt about regular compensation contact the retirement system for guidance.
- ▶ Incorrect deductions are possible. Whether too much or too little is withheld the sooner the error is found and corrective action is taken the better.

Deduction Processing

- ▶ Retirement deductions should be processed electronically.
 - ▶ Ideally, deduction files should be processed in line with the payroll cycle.
 - ▶ Manual processing of retirement deductions is becoming a past practice and will be unsupported in 2014.
- ▶ Currently, deduction files can be transmitted by email or on a USB stick.
- ▶ Future deduction files will be transmitted through an employer portal.
- ▶ Payment for deductions can be submitted electronically through ACH, rather than by paper check.

Buybacks

- ▶ Members often seek to buyback prior municipal employment towards retirement.
- ▶ Buybacks occur when:
 - ▶ An active member has prior municipal employment but did not make retirement contributions;
 - ▶ The retirement system accepts liability for the employee's prior time;
- ▶ The retirement system needs;
 - ▶ The payroll records;
 - ▶ Number of hours worked;
 - ▶ Rate of pay and employees overall earnings

Buybacks

- ▶ The cost of the buyback is:
 - ▶ The deductions the employee would have made if he or she was a member, plus interest.
 - ▶ The employees membership date determines the interest rate;
 - ▶ Prior to April 2, 2012 = 8.50%
 - ▶ After April 2, 2012 = 4.25% if paid within 1 year of membership; if not, current interest will apply.
- ▶ Payments:
 - ▶ Lump sum; rollover from tax shelter; five (5) year installment plan - paid directly to the retirement system or through additional post-tax payroll deduction; or any combination.
- ▶ Buybacks add time to a members overall creditable service; it does not change his or her membership date.
 - ▶ Exception - employees that were erroneously excluded from membership can buyback their proper membership date and their buyback is charged without interest.

Separation of Employment

- ▶ The manner in which an employee separates himself from employment can impact the benefits available to him from the retirement system.
- ▶ Upon separation of employment, notification should be sent to the retirement system immediately.
- ▶ It is imperative that we know whether the employee resigned or was terminated.
- ▶ When a termination of employment occurs the retirement system needs to know whether the termination was for cause:
 - ▶ Whether the employee was terminated because of an offense related to his office or position.
 - ▶ Whether the employee misappropriated funds.
 - ▶ Whether there is an investigation regarding the employee's alleged misconduct.
- ▶ Upon separation of service:
 - ▶ Employees may leave their retirement funds on account with the retirement system until age 70 ½ ; or
 - ▶ They may seek a refund their retirement contributions, terminating their membership; or
 - ▶ They may apply for retirement provide they meet the eligibility requirements.

Retirement

- ▶ It should go without saying...but for a member to retire they must apply with the retirement system. Applications can be received within four (4) months of the intended retirement date but no later than the actual date of retirement.
- ▶ All retirements are voted on by the Retirement Board.
- ▶ The member selects their retirement date, which can be any day of the week provided that their retirement application has been filed and they are no longer receiving regular compensation for employment.
- ▶ A request will be made for the employees' earnings, including validation of the employee's regular and non-regular compensation for retirement purposes. Typically, the retirement system is seeking the employee's last 36 months of earnings, unless the 3 high consecutive salary years fall during another time frame or the member is retiring on a disability. In those instances, specific time periods will be requested.
- ▶ Members seeking insurance coverage upon retirement are directed to their employer for assistance. Insurance premiums can be withheld from pension payments as requested by the employer.

The Working Retiree

- ▶ Municipal retirees can work in the private or public sector. However, if they are collecting their superannuation retirement allowance, they have earning and work hour restrictions if they work for the public sector in Massachusetts.
 - ▶ Earnings - they cannot earn more than the amount the position in which they retired is currently paying, minus their annual retirement allowance. After one (1) year of retirement, they can add \$15,000 to the amount they can earn.
 - ▶ Example: Position retired from currently pays: \$50,000
Gross annual retirement allowance: \$25,000
Allowable post retirement earnings: \$25,000
After year 1, \$15,000 can be added to the total earnings
 - ▶ Hours Worked - they cannot exceed 960 hours or work in any calendar year.
- ▶ PERAC provides worksheets to assist the employer to keep track of the employees restrictions.
- ▶ Retirees that waive receipt of their retirement allowance are not subject to the restrictions.
- ▶ No retiree is permitted to make contributions to the retirement system.
 - ▶ Exceptions include retirees that seek reinstatement

The Working Disabled Retiree

- ▶ Disabled retirees can work after retirement in any position except the position from which they have been retired.
- ▶ Disabled retirees are subject to earning restrictions whether they work in the private or public sector.
 - ▶ Earnings - they cannot earn more than the amount the position in which they retired is currently paying, minus their annual retirement allowance, plus \$5,000.

▶ Example: Position retired from currently pays:	\$65,000
Gross annual retirement allowance:	<u>\$45,000</u>
Difference:	\$20,000
Plus:	\$5,000
Allowable post retirement earnings:	\$25,000

- ▶ Disabled retirees must file tax statements annually with PERAC.
- ▶ Disabled retirees are not permitted to make contributions to the retirement system.
 - ▶ Exceptions include retirees that are restored to service.

Conclusion

- ▶ Municipal retirement laws are constantly changing
- ▶ Best sources of updated retirement information is from the retirement system staff, our website (www.norfolkcountyretirement.org) or the PERAC website (www.mass.gov/perac)