

NOTICE OF A MAJORITY REFERENDUM ON SOCIAL SECURITY PARTICIPATION

Please review the following information carefully.

Casting a Vote in the Upcoming Referendum is Very Important.

DATE:

FROM:

TO:

As Minnesota's State Social Security Administrator, the Public Employees Retirement Association (PERA) will supervise a referendum (or vote) of certain employees who are currently paying into both Social Security and the PERA Local Government Correctional Service Employees Retirement Plan. The referendum is a corrective step required by federal law to sanction the Social Security coverage that you and many of your coworkers have already earned and that you will have going forward if the referendum passes. The referendum is about Social Security coverage; the benefits provided under the PERA Correctional Plan are not impacted by the results of this vote.

Under direction from PERA, we are distributing this Notice of Referendum to the county employees who are eligible to participate in the upcoming vote that will determine if participation in Social Security will continue. Federal law requires that Correctional Plan members who are county employees on the date in which this Notice is issued be given a *minimum 90-day waiting period* before the vote is held so that they can use the period to obtain related information. The date of the referendum is January 30, 2015, with the collection of ballots from January 1st through January 30th.

As you know, Correctional Plan members are currently participating in both PERA and Social Security. When the Legislature created the PERA Correctional Plan, the first employees given membership on July 1, 1999, were transferred from the Coordinated Plan and they had Social Security coverage as members of that plan. New members of the Correctional plan (individuals who did not transfer from the Coordinated Plan) were also given coverage under both PERA and Social Security. Only recently was it learned that the Social Security Administration requires a vote be held to sanction the Social Security coverage for the employees who had been enrolled in the Correctional Plan as new members.

The referendum, which will be conducted by county staff, will pass or fail on the majority vote of you and your coworkers who are eligible to vote. The outcome will be decided on an "all or none" basis:

- If more than 50 percent of the eligible employees vote YES, everything stays the same – all employees of this governmental unit who are members of the Correctional Plan continue to have the Social Security coverage that has been provided through their positions. This includes employees who vote "no" and any employees who do not cast a ballot. Passage would mean that the Social Security credits for qualifying quarters will remain intact for you and all other county employees with Correctional Plan membership.
- If more than 50 percent of the eligible employees vote NO and/or do not vote, the referendum fails and Social Security contributions (6.2%) must stop. If the referendum fails, you would be eligible to receive a refund from the IRS of past overpaid employee Social Security contributions; however, federal law limits the refundable period, generally to the current and last three tax years.

The enclosed document provides important information about the referendum. Before voting, we encourage you to visit the Social Security website (www.ssa.gov) to create and access your own online account that will give an immediate estimate of your future Social Security benefits.

Important Information for the PERA Correctional Plan Members Who are Eligible to Participate in a Majority Vote on Social Security Coverage

As a public employee, isn't my participation in Social Security mandatory?

No. When Social Security was initially created, it was not automatically extended to government employees who are members of a public retirement system.¹ **The coverage can only be provided through voluntary Section 218 Agreements between the state and the Social Security Administration (SSA).** In Minnesota, most state or local government employees participate in Social Security under Section 218 Agreements that were established years ago to provide such coverage to employees as members of a statewide retirement system (e.g. PERA Coordinated Plan, Minnesota State Retirement System General and Correctional Plan, the Teachers Retirement Association).

What prompted the need for this referendum?

When the Legislature created the PERA Correctional Plan, the first employees enrolled on July 1, 1999, were transferred directly from the Coordinated Plan and they continued to contribute to Social Security after the PERA coverage had changed. In 2000, another group of Coordinated Plan members were transferred to the Correctional Plan after the Legislature changed the membership eligibility requirements and their employers had certified to PERA that the transfer was appropriate. This group of members also continued to contribute to Social Security after membership in the Correctional Plan had begun. Additionally, from July 1999 to the present, newly hired county employees were given coverage under both the Correctional Plan and Social Security.

In 2002, the Legislature designated PERA as the State Social Security Administrator (SSSA) responsible for administering Minnesota's Section 218 Agreement, including related modifications that are necessary to extend Social Security coverage to state and local government employees. In 2004, PERA took steps to process the paper work requested by the Social Security Administration for extending Social Security coverage under the State's 218 Agreement to positions under the PERA Correctional Plan. However, PERA was notified recently that in addition to the paperwork that was done, a referendum (or vote) should have been conducted years ago to extend Social Security coverage to the *new* participants of the Correctional Plan (those who did not transfer from the Coordinated Plan). **The omission of the referendum must be corrected now and a vote is needed to sanction the Social Security coverage for those employees who have been enrolled as new participants in the Correctional Plan.**

When will the vote be held?

The date of the referendum is January 30, 2015 and ballots will be collected from January 1st through January 30th.

Who gets to vote?

The employees who are eligible to vote are the county employees of this correctional facility whose current coverage under the Correctional Plan does NOT stem from a position that had been previously covered under the Coordinated Plan or, if it did, the members had a break in correctional service and later returned to the plan. **It has been determined that you are eligible to vote in this referendum.**

Additional eligibility requirements are that you must be employed by our county and active in the Correctional Plan on both the date in which we issued this Notice to you and the date of the referendum (January 30, 2015).

How will the voting be done?

The vote will be conducted by county human resources staff. You will be given a written ballot and asked to complete and deliver it in a sealed envelope to the onsite location established for collection purposes. **The ballot must be received no later than January 30, 2015 (an exception exists for employees on active military duty).**

To complete the ballot you must indicate either "YES" if you desire Social Security coverage or "NO" if you do not want to have Social Security coverage as a member of the PERA Correctional Plan. You must then add your name, Social Security Number, signature, and the date in which you signed the ballot. Lastly, place the ballot in an

¹ Refers to the Social Security OASDI program (Old-Age, Survivors, and Disability Insurance). Medicare participation is mandatory for employees hired after 3/31/1986.

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envelope with your name on the outside and seal the envelope. (Federal law requires this be a secret ballot.) County personnel will ensure that the completed ballots are delivered to PERA for counting after January 30th.

What if I do not vote?

If you do not complete and return the ballot no later than January 30, 2015, it will be deemed a “NO” vote.

What determines whether the referendum passes?

The referendum will pass or fail on the majority vote of you and your co-workers who are eligible to vote.

If a majority of the eligible employees vote “YES,” then nothing changes – all Correctional Plan members of this governmental unit continue to have the Social Security coverage that has been provided through their positions. This includes employees of this facility who vote “no” and any who do not vote. Passage would mean that the Social Security credits for qualifying quarters will remain intact for you and other county employees who are Correctional Plan members. Passage would also mean that county employees who join the Correctional Plan in the future will automatically be covered for Social Security.

On the other hand, if a majority of your co-workers who are eligible to participate in the referendum cast a NO vote and/or do not vote, you all stop paying into Social Security and no new members of the Correctional Plan will contribute to Social Security for their county correctional service employment.

Are some current members of the Correctional Plan not eligible to vote?

Yes. The employees who cannot vote are those whose current PERA coverage is for correctional service employment that had been certified by the county in 1999 or 2000 to move from the Coordinated Plan to the Correctional Plan and there has been no break in service since the Correctional Plan coverage began.²

Additionally, if a current Correctional Plan member terminates county correctional service employment before January 30, 2015, the person cannot participate in the referendum.

Do the votes of employees of *other* local correctional facilities affect the outcome for me?

No. While Social Security referendums are being conducted by other counties, the voting process in each employer is separate and distinct.

If the vote fails will I get a refund of any past Social Security employee contributions?

If Social Security coverage stops, you would qualify to receive a refund of overpaid taxes, but the refund period is limited to the federal IRS statute of limitations (generally the current and last three tax years, or 2011-2014). No refund can be retroactive to the date you became a new member of the Correctional Plan if it was before 2011 and no person will lose any Social Security credits earned prior to the period covered by the statute of limitations.

If you request and receive a refund from the IRS, you will lose the Social Security credits for the period in which the payment covers. In some situations, this reduction could result in insufficient credits (less than 40) to qualify for future Social Security retirement benefits.

At this time, we do not know if the Social Security credits earned from 2011-2014 (as applicable) will be removed from an employee’s account even if the person does not request a refund. We have asked the SSA for clarification.

² The Social Security coverage of these members began based on positions that were under the Coordinated Plan, which has had a Section 218 Agreement since 1968. These members retained their 218 Social Security coverage after they had transferred to the Correctional Plan and that coverage cannot be terminated.

Important Information for the PERA Correctional Plan Members Who are Eligible to Participate in a Majority Vote on Social Security Coverage

Are any *former* employees affected by the referendum outcome?

If the referendum passes, PERA will execute a Section 218 Agreement to sanction the Social Security coverage of former Correctional Plan members and ensure that they retain the credits they have earned as county employees.

If the referendum does not pass, former county employees with Correctional Plan coverage in the years 2011 through 2014 could be affected by the outcome, but we are waiting for further information from the SSA. In this situation, it is unclear whether the former employees will be able to keep the Social Security credits on their records from 2011 forward if they choose to not request a refund from the IRS. If the loss of credits from 2011-2014 is required, the reduction could result in lower Social Security benefit amounts and overpayments for some current retirees, or others who are receiving benefits on the same Social Security record. In some instances it could also result in insufficient credits to qualify for Social Security retirement benefits (less than 40 credits).

If the referendum does not pass, can another referendum be held on a later date?

If the majority of eligible voters do not vote YES to Social Security coverage, another referendum cannot be held among the employees of the PERA Correctional Plan for at least one year after the January 30, 2015 voting was done. The one-year wait period was designed to prevent immediate or repetitive referendums for the same type of voluntary coverage for the same retirement system.

What should a current employee consider in deciding how to vote?

- PERA views this as a “technical correction” because its staff was not advised in 2004 of the full actions that were needed to sanction Social Security coverage for new Correctional Plan members. A vote should have been conducted years ago and must be done now. This process is a formality needed to sanction the coverage you have already earned and that you will have going forward if the referendum passes.
- **Social Security uses an average of your highest 35 years of earnings – not consecutive, but actual highest earnings – to calculate your benefit. The more years you have contributed to Social Security, the greater your average earnings will be for determining your benefit from that program.** Less than 35 years of earnings means your average will be lower, resulting in lower benefits, because the total years of earnings are averaged over 35 years whether or not you actually have 35 years or more of earnings in your Social Security record.
- **Social Security benefits are calculated to produce a lesser benefit for government employees who retire from a retirement system for which they have *not* contributed to Social Security** – this SSA calculation procedure for government employees is called the **Windfall Elimination Provision (WEP)**³ The full effect of the reduced calculation (WEP) does not apply if you have more than 20 years of substantial earnings reported to Social Security – and does not apply at all to individuals who have 30 or more years of substantial earnings covered by Social Security. The more years you have on your Social Security record, the better your benefit will be.
- **Social Security benefit coverage may be better for the surviving spouse and dependent children of a Correctional Plan member than the PERA plan alone provides.**⁴ Visit www.ssa.gov for more details.
- **Nothing changes with respect to your PERA Correctional Plan benefits.** The PERA Correctional Plan will continue to provide the current benefits of the plan whether you have Social Security coverage or not. The benefits of the Correctional Plan were intended to ‘coordinate’ with Social Security coverage.
- State Correctional Plan members are covered by Social Security, thus any movement between state and local government correctional service would result in inconsistent coverage in the Social Security program.

³ Complete information about the Windfall Elimination Provision is at www.ssa.gov. Search for WEP, or look under ‘Benefits,’ ‘Government Employees,’ click on Windfall Elimination Provision.

⁴ Go to www.ssa.gov and under *Benefits* click *Children* for information on dependents’ benefits.

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- Financial security in retirement has long been based on the concept of the three-legged stool; that is, Social Security, retirement plan, and personal savings.** Retaining Social Security coverage as a public employee ensures the three legs remain in place to support retirement, with an estimated 35 to 40 percent of your future retirement income coming from Social Security, depending on whether you retire early at age 62 or wait to draw at your full retirement age of 66 to 67. While the metaphor of the three-legged stool may be seen as outdated, its principle – having multiple resources to support retirement years - is still relevant.

Glance at benefits

Following is a side-by-side quick glance of benefits payable from PERA Correctional Plan and Social Security. It is a high level summary so you should refer to the websites for more detailed information.

	PERA Correctional Plan	Social Security
Employee Contributions	5.83% of pay	6.2% of pay (For 2014, the maximum amount of taxable earnings is \$117,000)
Employer Contributions	8.75% of pay	6.2% of pay (For 2014, the maximum amount of taxable earnings is \$117,000)
Vested	3 years of credited service if enrolled before July 1, 2010 Graded 5 to 10 years if enrolled after June 30, 2010	Must have earned 40 quarters of credit, or about 10 years of covered service in Social Security to qualify for a benefit
Retirement Age	50 with reduction 55 full retirement (unreduced)	62 with reduction 66 to 67 full (depends on year of birth)
Earnings used to determine benefits	Highest five years' average (must be consecutive years)	Any highest 35 years (indexed to current dollar value; do not need to be consecutive; if less than 35 years of earnings recorded, will still average over 35 years) referred to as the AIM
Formula to determine benefits	1.9 percent for each full year of credited service (prorated for partial years)	Based on a percentage replacement of average earnings; changes slightly each year. Refer to www.ssa.gov .
Disability Benefits	Occupational test – unable to perform duties of position Duty - minimum = 47.5% of high five, plus 1.9% more for each year over 25 (correctional plan service only) Regular = minimum of 19% of high five years; plus 1.9% for each year over 10	Total and permanent disability – defined as being so severely impaired, physically or mentally, you cannot perform any substantial, gainful work. Depending on age, can qualify with less than 40 quarters of credited earnings. Refer to www.ssa.gov .
Surviving Spouse Benefits	Lifetime benefit based on member's salary and years of service, reduced if death occurs before full retirement age; term certain payments over 10, 15 or 20 years can be chosen instead of lifetime.	A benefit is payable to a surviving spouse at age 60. Surviving spouse caring for a child under age 16 or a child disabled before age 22 receives 75% of your primary insurance amount (PIA). Refer to www.ssa.gov .
Children's Benefits	If no surviving spouse and children are under age 20, a value of the lifetime benefit based on member's age at death, earnings and years of service will be paid to age 20 or for five years if older than 15, but less than 20. Actuarially divided among all eligible children based on ages.	An eligible child qualifies for 75% of your primary insurance amount (PIA) – eligible means under age 18 or up to 19 if in high school or any age if disabled before age 22. More than one child – each entitled to 50% of PIA of parent with highest value, not both parents. Refer to www.ssa.gov .

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	PERA Correctional Plan	Social Security
No one eligible for monthly payments of any kind	Designated beneficiary or estate receives refund of employee contributions, plus interest.	Contributions are not refundable.

Key terms used by Social Security:

AIM – average indexed monthly earnings; this is determined by indexing your earnings from years past to current dollar values and averaged over 35 years, more specifically, averaged over 420 months to arrive at the average earnings that will be used by Social Security to determine your benefit payments. If you have less than 35 years of earnings reported, Social Security will still average the total of your reported earnings over 420 months, so the more years you have paid into Social Security, the better for determining this average.

PIA – primary insurance amount; this is the benefit that Social Security calculates using their formula for replacing your AIM; it is the base from which any reduced retirement and survivor benefits are determined.

Key term used by PERA:

High five – high five consecutive years’ average salary; this is the average of your highest 60 consecutive months of earnings for which you received credit in your PERA account and is used to determine your full benefit amount payable at full retirement or for disability, and is used as the base for determining reduced retirement benefits, or the lifetime optional or term certain benefits payable to beneficiaries.

How can I get general information about the benefits available from Social Security?

Social Security has an excellent website with publications on retirement, disability and survivor benefits. Just go to www.ssa.gov and select *Benefits* tab at the top and click a specific topic. For example, click *Retirement* and when the Retirement Benefits screen appears, click *Publications* on the right under Related Information.

If you want to talk with a representative of the SSA about the general benefits under the Old Age Survivors and Disability Insurance (OASDI) program, you will need to call the toll free number of 1-800-772-1213.

How can I get benefit estimates from Social Security?

If you have an online Social Security account you can get immediate estimates of your future SSA retirement benefit. To create an account, go to www.ssa.gov and click *MySocialSecurity*. Then select *Create an Account* and provide the information required for new users.

If you have enough credits now to qualify for benefits, the SSA also has an online Retirement Estimator you can use for “what if” scenarios. With this tool (go to www.socialsecurity.gov/estimator, then select *Estimate Your Retirement Benefits*) you can obtain a retirement estimate assuming that you stop contributing after January 2015 and have no future earnings reported to Social Security.

How can I get more information about the PERA Correctional Plan benefits?

As stated earlier, the benefits under the PERA Correctional Plan are not impacted by the results of this vote.

The PERA website has member brochures on retirement, disability, and survivor benefit coverage available through this plan. You may also use the online “My PERA” tool to get estimates of future benefits or refundable balance plus interest. Just go to www.mnpera.org, click *MY PERA*, and then click *Register as New User* and complete the registration process. Once you click *Agree* at the bottom of the online *Terms and Conditions of Use*, you will be brought to your Account Information page and can use the many options available to you in My PERA.