

Important Notice to PERA Correctional Plan Members

PERA, as the State's Social Security Administrator of the Section 218 Agreement, recently was told that certain participants of the PERA Local Government Correctional Service Employees Retirement Plan need to vote to authorize their Social Security coverage. PERA is currently working with the Association of MN Counties, MN Inter-County Association and the Sheriffs' Association to educate county administrators, human resource personnel, sheriffs and county boards of the steps that must be taken to conduct a "referendum" for eligible members of the Correctional Plan to vote to **sanction** this coverage.

PERA has asked the county administrators to review the process for the vote with their county boards and indicate to us their preference for how the vote should be conducted. The process – majority vote or divided vote – will be decided based on the responses we receive from the counties. Since the actual referendum must be conducted under the same process for all counties with Correctional Plan members, the voting process indicated by the majority of the counties will be the process that is used.

In the meantime, PERA staff will continue to work with county administrators or human resource personnel to get a notice of the referendum out to correctional facility employees who are eligible to vote on this issue.

What is a Section 218 Agreement?

A Section 218 Agreement is a written voluntary agreement between a State and the Social Security Administration (SSA) to provide Social Security for employees of State and local governments. It is called a Section 218 Agreement because it is authorized under Section 218 of the Social Security Act. It is the official documentation between the State and Social Security defining which public employees in Minnesota are covered by Social Security.

A Section 218 Agreement is merely a channel through which government employees can obtain the same Social Security and Medicare coverage and benefit rights as employees in the private sector.

What prompted the need for this referendum?

When the Legislature created the PERA Local Government Correctional Service Employees Retirement Plan on July 1, 1999, the first employees enrolled in the Correctional Plan were transferred from the Coordinated Plan and had Social Security coverage as members of that plan. PERA, when later named the State's Social Security Administrator, took steps in 2004 to process the paper work requested by the SSA for extending Social Security coverage under the State's 218 Agreement to positions under the PERA Correctional Plan.

PERA recently learned, however, that individuals enrolled in the Correctional Plan who had not been members of the PERA Coordinated Plan as correctional personnel were not automatically eligible to be covered by Social Security, despite the paper work processed in 2004. PERA was told that to **sanction** Social Security coverage for individuals who have been enrolled as new participants in the Correctional Plan, a referendum must take place and the results of that process must then be documented in the State's Section 218 Agreement.

What must be done now?

A vote by all "eligible" members of the PERA Correctional Plan must be conducted in order to legally **sanction** the Social Security coverage that has been given to correctional facility employees who were not transferred as correctional personnel from the PERA Coordinated Plan to the Correctional Plan and to future members of this retirement system. We are targeting the referendum to be conducted in December 2014 or January 2015.

PERA staff is reaching out to union leaders to educate them so that they can help members understand why this referendum is required, what members can expect to receive as information, and what they need to consider in deciding how to vote.

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Who gets to vote?

Employees who were transferred from the PERA Coordinated Plan to the PERA Correctional Plan by their employers when the plan was established in 1999, or when the plan's membership criteria was changed by the Legislature in 2000, are **not** eligible to vote in this referendum – that is about 700 of the current plan participants. The SSA determined that these employees retained their Section 218 Social Security coverage as correctional personnel who were directly transferred from the Coordinated Plan into the Correctional Plan. That leaves approximately 2,900 current participants of the plan who are eligible to vote. PERA staff members are working with county administrators and human resource personnel to verify the employees eligible to vote.

You must receive a Notice of Referendum at least 90 days before the actual vote can take place if you are determined to be part of the eligible group who can vote in this referendum. A Correctional Plan member must be currently employed and active in the Plan both on the date on which the Notice of Referendum is distributed and the period of time when the referendum is held to cast a ballot.

Will PERA send out the ballots?

We are working with the county administrators and human resource personnel to determine how the ballots will be distributed. We will post more information once those details are finalized.

What should an employee consider in deciding how to vote?

- PERA views this as a **“technical correction”** because we were not advised to hold a referendum when we made our initial inquiries as the State Social Security Administrator (SSSA), so **the upcoming referendum is a formality needed to sanction the coverage you have already earned and that you will have going forward, had the referendum been conducted when the plan was created in 1999.**
- Social Security uses an average of your highest 35 years of earnings – not consecutive, but actual highest earnings – to calculate your benefit. 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, so the more years you have contributed to Social Security, the greater your average earnings will be for determining your benefit from that program.
- 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)**¹ 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.² (See link below for where you can find more information.)
- 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.

¹ Complete information about the Windfall Elimination Provision can be found at www.ssa.gov. Search for WEP, or look under ‘Benefits,’ ‘Government Employees,’ click on Windfall Elimination Provision.

² Go to the Social Security website – www.ssa.gov and under ‘Benefits’ click on “Children” for more information on dependents’ benefits.

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- 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.
- **Financial security in retirement has long been based on the concept of the three-legged stool; that is, Social Security, retirement plan, personal savings.** Retaining Social Security coverage as a correctional employee ensures the three legs remain in place to support your retirement, with an estimated 35 to 40 percent of your future retirement income coming from Social Security, depending on whether you retire as early as age 62 or wait to draw at your full retirement age of 66 to 67.
- Failure to vote will be recorded as a “no” when the votes are counted.

What is a ‘divided’ vote referendum and what happens with the results of the divided vote process?

A divided vote means each eligible voter can choose if he or she wants to continue to participate in Social Security coverage. Anyone who votes ‘no’ would have Social Security (but not Medicare) contributions discontinued and would be eligible for a refund of past contributions as described below. Those who vote ‘yes’ would continue to pay into Social Security just as they are currently doing.

When the divided vote is completed, all future newly enrolled members of the Correctional Plan would automatically contribute to Social Security. There is no personal decision once this voting process is completed.

What happens if the voters approve continuing Social Security coverage through a majority vote referendum?

Simply put, nothing changes. Members of the Correctional Plan continue to pay into Social Security and PERA, and they will receive both sets of benefits just like Coordinated Plan members.

What happens if the vote fails (a majority do not vote to keep the SSA coverage)?

If a majority vote referendum fails then **only the Correctional Plan members who were in the Coordinated Plan before** their positions were **moved to the Correctional Plan** would keep their Social Security coverage, and:

- Current Correctional Plan members who had Social Security deductions withheld, but should not have, could get a refund from the IRS. **The refund would only be for the allowable period under the federal statute of limitations period, generally the three previous tax years.** Employers would also receive refunds of employer contributions paid on behalf of members who request a refund. No refund of Social Security contributions would be retroactive to a date outside the federal statute of limitations. Social Security earned credits remain in place for the earnings period that are outside the statute of limitations.
- Former employees who had become Correctional Plan members after 7/1/1999 **and** who terminated their employment during the IRS statute of limitations period would be in jeopardy of losing the Social Security coverage for that period. The resulting effect on Social Security benefits would be possible lower benefit amounts, possible loss of coverage by Social Security all together if insufficient credit was earned under that program (less than 10 years), and possible overpayments to a former employee and others receiving benefits on the same Social Security record.
- Individuals enrolled in the PERA Correctional Plan from that point forward would not contribute to Social Security.

Information about your Correctional Plan benefits is available on the PERA website . Click on Members, then Correctional Plan. While you are on the web site, if not already registered, register in

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My PERA to access your own account for estimates benefits, refundable balance plus interest or to check the personal data maintained in your PERA account (such as your beneficiaries).

Social Security has an excellent website explaining benefits and a calculator you can use to estimate your future SSA benefit. Go to www.ssa.gov.

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.

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 web sites for more detailed information.

	PERA Correctional Plan	Social Security
Employee Contributions	5.83% of pay	6.2% of pay
Employer Contributions	8.75% of pay	6.2% of pay
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 .

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