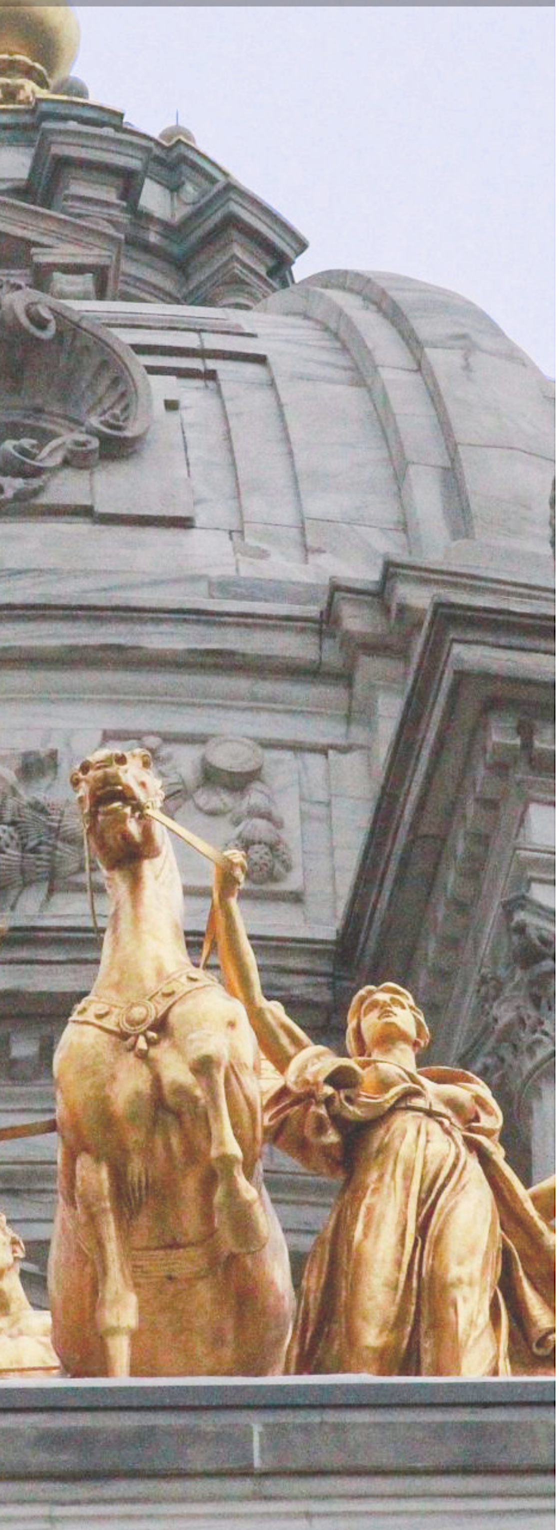
FACT SHEET



Workers' Compensation

Workers' Compensation is a benefit payment made by an outside insurance company or the employer's self insurance to an employee on leave due to being injured on the job.

PERA Withholdings

Generally, payments to an employee who qualifies for Workers' Compensation benefits are processed in one of these ways:

1. The employee receives payment from the insurer only and no money from the employer. In these instances, no compensation or PERA contributions are to be reported — Workers' Compensation benefits are not salary for PERA purposes. No service credit is given for a person who only receives a benefit check from the insurer.

2. The employee receives checks from the insurance provider and from the employer. When an employer issues payments that supplement the Workers' Compensation award, the amount the employer pays to the employee is to be reported to PERA. Examples:
   » Employee uses accrued sick or vacation leave
   » Employer issues compensation to employees whose Workers' Compensation awards are less than their regular salary (e.g. Employer augments the Workers' Compensation benefit from the insurer, which represents two-thirds of the person's regular salary, by paying the employee an amount equal to one-third of salary.)

   When the employer supplements a Workers' Compensation payment, the employee receives service credit for each month in which a PERA deduction is withheld from the compensation.

3. The employee receives a check from the insurer which is then signed over to the employer. The employer subsequently issues a "regular payroll" check to the employee. Although the employer is issuing a check to its employee, the source of those dollars is the Workers' Compensation benefit in the form of reimbursement to the employer. The Workers' Compensation from an insurer is not eligible for PERA contributions and must be subtracted from the total amount issued to the employee. Only PERA-eligible earnings should have contributions withheld. Similar to item #2 above, service credit is awarded for each month in which a PERA deduction

Public Employees
Retirement Association
of Minnesota

is withheld from the compensation.

4. The employer pays the employee's full salary while a Workers' Compensation claim is pending. The full amounts should be reported to PERA and appropriate contributions must be withheld. If the employer later receives a retroactive Workers' Compensation award, reimbursing the employer for some or all of the compensation paid while the claim was pending, PERA's records must be adjusted. The employer should contact PERA to determine the method to use to reduce the employee's reported salary as well as the employee and employer contributions.

Reporting Steps

When an employee receives Workers' Compensation benefits, report the status change using code 'W' along with the effective date (use ERIS, demographic data files or the Member Information Change form). Report any salary during each pay period using the standard reporting procedures for "regular pay." When the person's leave of absence ends, report the employment status change to active (code 'A') and the associated effective date.

Purchasing PERA Credit

If, while receiving Workers' Compensation benefits, the employee has no PERA-eligible earnings for an entire calendar month or reduced earnings for any period of time, he or she can purchase the missing service credit (or maintain full salary for PERA purposes in the case of reduced earnings) by paying the employee and employer PERA contributions, plus interest. The amount due is based on the employee's average salary, excluding overtime, for the previous six months. Interest is calculated at 8.5 percent compounded annually from the day the Workers' Compensation period began until the last day of the month in which the final payment is made. Although the employee is responsible for both the employee and employer contributions, the employer can pay the employer portion (plus interest) if it so chooses. The employer is not, however, allowed to pay the employee portion.

The employee has one year from the end of the Workers' Compensation period or within 30 calendar days after termination, whichever is sooner, to pay the contributions. Furthermore, the employee is not allowed to only pay a portion of the Workers' Compensation leave period— the total period of leave must be paid, which could result in a combination of salary and service credit purchase. If the employer has agreed to pay its portion, it will be invoiced by PERA once the employee has paid his or her share.

If a member has questions about service credit associated with Workers' Comp, please have them call PERA Member Services at 651-296-7460 or 1-800-652-9026.