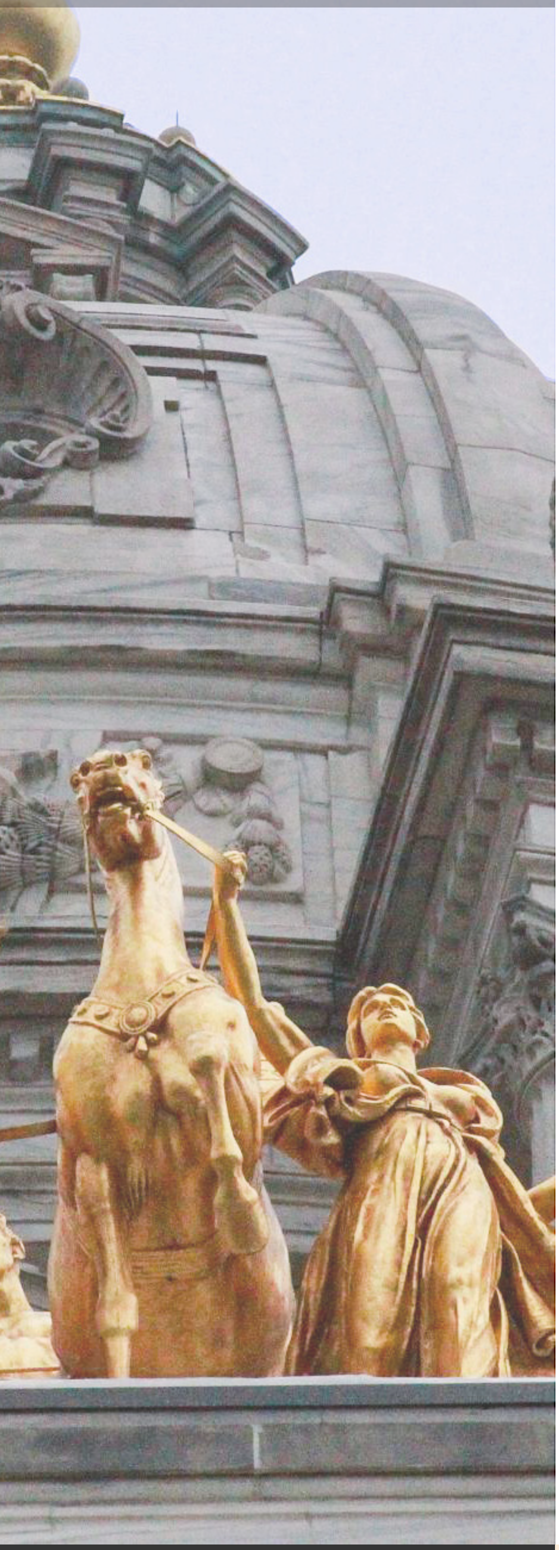
PERA

EMPLOYER EDUCATION
July 2018

FACT SHEET



Omitted Deductions

All PERA-eligible employees must have PERA contributions withheld beginning in the pay period in which they meet the requirements of the Defined Benefit Plan.

Occasionally, an employer may mistakenly delay the enrollment of an eligible employee or may erroneously not report all eligible salary or deductions for a PERA member. In both instances, PERA considers the missing employee and employer amounts to be ***omitted deductions (ODs)***. When an employer discovers an eligible employee was not enrolled, the first step must be to enroll the employee into the proper plan and begin to withhold PERA deductions from the employee's eligible salary. It must then look at when the employee should have been enrolled to determine omitted deductions.

Minnesota law limits the liability of current employees for payment of membership omitted deductions and places much of the burden upon the employer. The employee is responsible for the omitted deductions for the 60 days immediately preceding the pay period in which PERA deductions were first withheld from pay. The member's employer is liable for all remaining employee contributions beyond the member's 60-day obligation in addition to all employer contributions for the omission period. The employer is also responsible for 8.0 percent interest from July 1, 2015 to June 30, 2018 and 7.5 percent thereafter, compounded annually on the combined amount of employer and employee contributions. The interest is required to compensate the retirement fund for the investment earnings "lost" when the contributions were not submitted to PERA and invested on time.

The liability for omitted deductions is different when the employee terminated employment before the omitted deductions are discovered. In contrast to cases of omitted deductions for working members, employers are not legally responsible for any employee contributions in the omission period for former employees. The former employees, themselves, are also not legally obligated to pay their member omitted deductions. Once PERA has collected full payment of omitted deductions from the former employer, PERA notifies the former employee of his or her right to pay the omitted employee deductions in order to gain service credits. If the employee pays his or her omitted deductions, PERA adds service credit to the employee's PERA account.

Furthermore, the calculation of the omitted deduction amount is

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either done by the employer or by PERA staff, depending on the length of time between the date the employee was eligible for PERA and when he or she was actually enrolled.

Period of Omission Under 60 Days

If the period of omission on a current employee is less than 60 days from the first withholding of payroll deductions, the employer should calculate the ODs and report them on the Salary Deduction Report (SDR) or electronic contribution file. To report them, one or more new transactions should be added to the SDR or electronic contribution file. The new transactions should reflect the coverage dates of when the omitted deductions occurred and not the coverage dates of the regular pay being reported for that employee.

Contributions should be treated similar to regular pay in that the employee contributions are paid through payroll deductions while the employer pays the employer share. The Pay Type to use for omitted deductions is 06. Additionally, when the ODs are less than 60 days, no interest is due on either employee or employer contributions.

Period of Omission is More than 60 Days

PERA staff must calculate all omitted deductions on former employees. Additionally, when the ODs for a current employee go beyond 60 days when the employee was first eligible for PERA, PERA staff must calculate the amounts due. However, for PERA to calculate the ODs, certain steps must be taken by the employer:

1. If the current employee has not already been enrolled in a PERA plan, the employer must submit a paper or electronic enrollment and withhold PERA contributions the next time the employee is paid.
2. Submit a history of the current or former employee's earnings from the date of hire or for the three full calendar years preceding the current year, whichever is shorter, on an Individual Record of Earnings form. The earnings history needs to show each individual pay period separately and the corresponding date on which the employee was paid for each of the pay periods. The earnings history is used to determine when, or if, an employee was eligible for a retirement plan in a month before deductions from current pay started.
3. PERA sends bills covering omitted deductions of current and former employees on a monthly basis to employers. Do not submit payment until an invoice is received. If the billing report covers more than one employee and you are unable to send payment for all employees listed, please identify on the invoice the employees for whom payment was not sent, the unpaid amount, and the reason for the delay. When sending checks, please submit a copy of the omitted deduction invoice. Interest continues to accrue until the bill is paid in full.

If you need additional help regarding omitted deductions, please call the employer response line (651-296-36363 or 1-888-892-7372) and select option #3.