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Last chapter 7 revision:
December 20, 2018
Chapter Revisions Log

Chapter 7– Contribution Reporting

Public employers are responsible for withholding pension deductions from the eligible salary paid to public employees whose coverage in a PERA retirement plan is mandatory, or when PERA membership is voluntary and the person chooses the coverage. Also, with limited exceptions, an employer contribution is payable on behalf of each covered employee at the same rate or higher than the member deduction.

As a participating employer, you are to remit full payment covering the employee deductions and the employer contributions due for each pay period along with a *Salary Deduction Report* (SDR) containing detailed salary and contribution data. Both the payment and the SDR must be received by PERA within 14 calendar days after the pay date to avoid interest or a late penalty.

This chapter will help payroll administrators fulfill their contribution reporting duties as they relate to the General Employees Plan (which encompasses the Coordinated Plan and the Basic Plan), the Correctional Plan, and the Police and Fire Plan (which are Defined Benefit Plans) as well as the PERA Defined Contribution Plan. This chapter does not include information about how PERA collects contributions to fund benefits for members of the Statewide Volunteer Firefighter (SVF) Plan. For that information, please refer to Chapter 2 of this manual.

The Employer Manual is intended to provide general information. The rights and obligations of public employers and members are governed by state and federal laws, rules and regulations. The Minnesota Legislature or the federal government may change the statutes, rules and regulations governing PERA at any time. The statutes and regulations shall govern if there is any discrepancy between them and the information in this document.

Tax-Sheltered Deductions

The PERA retirement plans are "tax-qualified" under Section 401(a) of the Internal Revenue Code (IRC). Additionally, the plans are governmental plans within the meaning of IRC section 414(d) with an employer "pick up" of member contributions under Section 414(h)(2). This IRC section provides a mechanism under which member contributions that satisfy specific requirements are not immediately taxable to the employee. The IRC refers to these contributions as "employer pick ups," which basically means that the amounts that are withheld from employees' earnings are considered for tax purposes to be "picked up" by the employer through a salary reduction method and are, therefore, tax sheltered at the time of withholding.)

To ensure proper handling, you must calculate federal and state income tax withholdings on the amount that remains *after* the PERA member deduction and any voluntary employee-elective, tax-deferred deductions are subtracted from the employee's gross salary. See Figure 1. (Please refer to Chapter 5 Eligible Earnings for information on how to treat voluntary tax-deferred employee contributions to a deferred compensation plan, cafeteria plan, flexible spending account, etc. for PERA contribution purposes.)

Figure 1

Example - Pre-Taxed PERA Employee Deductions	
Employee gross salary for a single pay period (assumes that the full amount is eligible for PERA withholding)	$1,200.00
PERA deductions at 6.50 percent withheld from the employee's pay ("picked up" by a salary reduction for tax reporting purposes)	- 78.00
Taxable Income - Federal and State	$1,122.00
Note: The employee's PERA deduction does not lower the salary used when calculating Social Security or Medicare withholding.	

Also, when you prepare the federal Form W-2 on employees who are PERA members, be sure to check the "retirement plan" box.

Contribution Rates

Figures 2 and 3 show the contribution rates for all of the statewide pension plans administered by PERA. For these plans, member deductions and employer contributions are calculated on an employee's "PERA-eligible salary" as defined in PERA law. (Refer to Chapter 5 Eligible Earnings.)

The member deduction is a percentage of salary determined by the specific retirement plan in which an employee qualifies and has been enrolled. Employee deductions must be withheld at the contribution rate that is in effect on the date the salary is paid.

With limited exceptions, an employer contribution is also payable on behalf of each member at the same rate or higher than the employee deduction.

Figure 2 Employee DBP Contributions

Defined Benefit Plan (DBP)	2018	2019
General Employees Plan - Coordinated Plan - Basic Plan	6.5% 9.10%	6.5%[1] 9.10%
Correctional	5.83%	5.83%
Police and Fire (P&F)[2]	**10.8%**	**11.3%[1]**

[1] The noted Coordinated and P&F rates are effective for all salary paid on or after 01/01/2015.
[2] Effective January 1, 2019, the contribution rates for the P&F Plan will increase. Employee will increase by 1.0 percent, phased in over a two-year period.

Figure 3 Employee DCP Contributions

Defined Contribution Plan (DCP)	2018	2019
Elected and Eligible Appointed Public Officials	5.00%	5.00%
Physicians	5.00%	5.00%
City Managers	6.5%	6.5%
Ambulance/Rescue Squad Personnel	Rates set by Employer	
Volunteer or On-call Firefighters (not covered for that service by the PERA Police and Fire Plan or by a relief association under chapter 424A)	7.5% or more made either solely from compensation paid to the firefighter or through a combination of member deductions and employer contributions	

At times, PERA's Board of Trustees finds it necessary to ask the Legislature to modify the contribution rates for a Defined Benefit Plan to reflect funding needs and/or benefits. Such proposals are based on recommendations of a consulting actuary. PERA will notify participating employers of any changes made to the PERA contribution rates through the quarterly PERAphrase newsletters.

Employer Rates

Under state law, public employers that have one or more employees who qualify for membership under a PERA Defined Benefit Plan (excluding the SVF Plan) must pay employer contributions to PERA on behalf of each eligible employee. With the exception of the General Employees Plan (Basic and Coordinated plans), the employer contribution is an amount that matches the employee contribution. Employers with members of the General Employees Plan will match the employee contribution amount and pay an employer additional contribution at the rate set in Minnesota Statutes.

Figures 4 and 5 show the employer contribution rates for the PERA statewide Defined Benefit and Defined Contribution plans (except the Statewide Volunteer Firefighter Retirement Plan). As with the employee rates, you calculate the contributions on the salary of each eligible member at the rate in effect on the date the employee is paid. The Coordinated and P&F rates listed for 2018 are effective for all salary paid on or after 01/01/2018.

Figure 4 Employer DBP Contributions

Defined Benefit Plan (DBP)	2018	2019
General Employees Plan - Coordinated Plan - Basic Plan	7.5%[1] 11.78%[2]	7.5%[1] 11.78%[2]
Correctional	8.75%	8.75%
Police and Fire (P&F)[3]	**16.2%**	**16.95%**

[1] Represents the employer match of the Coordinated Plan employee deduction

[2] Represents the employer match of the Basic Plan employee deduction (9.10%) and an employer additional amount at 2.68%

[3] Effective January 1, 2019, the contribution rates for the P&F Plan will increase. Employer rates will increase by 1.5 percent, phased in over a two-year period.

Figure 5 Employer DCP Contributions

Defined Contribution Plan (DCP)	2018	2019
Elected and Eligible Appointed Public Officials	5.00%	5.00%
Physicians	5.00%	5.00%
City Managers	6.5%	6.5%
Ambulance or Rescue Squad Personnel	Set by the employer	
Volunteer or On-call Firefighters not covered for that service by the PERA Police and Fire Plan or by a relief association under chapter 424A	7.5% or more made either solely from compensation paid to the firefighter or through a combination of member and employer contributions	

Employers with employees under the PERA Defined Contribution Plan contribute an amount equal to the employee deduction unless Minnesota Statutes provide for the rate to be established by the employing unit.

Compensation or Contribution Limits

The PERA defined benefit and defined contribution plans are considered to be tax-qualified plans and must be administered to comply with applicable provisions of the federal Internal Revenue Code (IRC). Two of these provisions, described here, may affect highly compensated employees.

DBP Compensation Limit
Section 401(a)(17) of the IRC places an annual limit on the amount of compensation that is subject to retirement withholding for members of a Defined Benefit Plan (DBP). This includes members of the PERA Basic, Coordinated, Correctional, or Police and Fire plans.

Figure 6 shows the reportable compensation limits for calendar year 2019. As noted, the maximum annual compensation amount is higher for members whose original date of PERA membership is before July 1, 1995 (per Minnesota Statutes § 356.611). The higher limit applies to pre-July 1995 members, even if they had a break in service and PERA membership.

Figure 6 Reportable Compensation Limit Defined Benefit Plans

Year	Employee's original date of membership is after 6/30/95	Employee's original date of membership is before 7/1/95
2019	$280,000	$415,000

Employers should monitor against the federal compensation limit using the dates in which the salary is earned by the member, not the dates the income is paid. The earnings period is used because members of a DBP earn service credit based on the coverage dates of the pay periods for which contributions have been made.

If you have DBP members that you anticipate will receive compensation in excess of the annual federal limit, please take steps to avoid contribution overpayments. However, if you stop deducting contributions during a calendar year for any member whose compensation has reached the federal limit, you must notify PERA so we can take steps to ensure that the member receives service credits for the months of salary without contributions.

DCP Contribution Limit
IRC Section 415(c) limits the amount of annual employee and employer contributions that may be made on behalf of an individual who participates in qualified Defined Contribution Plans (DCP). Figure 7 that follows shows the federal contribution limits in effect for DCP members for calendar year 2019.

Figure 7 Contributions Limits — DCP Members

Year	Annual Limit
2019	$56,000

Includes both employer and employee contributions. For each member, the employer is to monitor the amount of annual employee and employer contributions and discontinue contributions if the federal limit has been reached.

Monitoring by PERA
At the conclusion of a calendar year, PERA staff monitors compliance with the compensation and contribution limits set by the federal government. If we find that excess contributions have been credited to a member, we will issue a refund to the employee and a credit to the employer. Information about refunds of deductions in error appears later under Special Situations.

The limitation amounts are subject to change annually by the Internal Revenue Service and announcements are published on its web site (www.irs.gov) and in various announcements.

Social Security and Medicare Coverage

In Minnesota, most non-public safety employees who are PERA members pay into Social Security and Medicare due to a "Section 218 Agreement" between the state and federal governments.

The Minnesota Section 218 Agreement calls for Social Security coverage of all individuals holding positions that qualify for coverage in the Coordinated Plan. This includes persons who have the option to join the Coordinated Plan (i.e. physicians, city managers and certain non-governing body elected officials) even if they do not choose such coverage. It also includes employees who are drawing a PERA retirement benefit and who hold a position that would otherwise provide membership in the Coordinated Plan. Reemployed retirees, or employees who retired under a PERA Phased Retirement Option, may not contribute to PERA on the post-retirement earnings, but they must pay Social Security and Medicare on those wages. (See Special Situations later in this chapter for instructions on reporting the salary of working retirees to PERA.)

On the other hand, employees who are members of the Police and Fire Plan or the Basic plan are not subject to Social Security withholding because their positions are not covered under Minnesota's 218 Agreement and are not subject to mandatory Social Security under federal regulations. Medicare participation is required, however, for police officers or firefighters who are hired after March 31, 1986. If a police officer or firefighter was hired before April 1, 1986, is a member of the PERA Police and Fire Plan, and has been continuously employed by the same employer, the individual is exempt from the Medicare program.

With respect to the Correctional Plan, all members are subject to Medicare withholding. However, members of the Correctional Plan are covered for Social Security purposes only if that coverage had been approved through a referendum conducted by the employing county. If a referendum has passed, PERA would have established a separate modification agreement with the federal government to extend Social Security coverage to the correctional service employees of that employer. For information about Social Security coverage for the Correctional Plan members of a specific employer, contact the PERA office.

The information in Figure 8 will serve as a quick reference tool. It provides guidance on when a public employee who holds a position that qualifies for coverage under a PERA Defined Benefit Plan must pay Social Security and Medicare taxes.

Figure 8 Social Security And Medicare Withholding

PERA Plan Under Which the Position Qualifies for Membership	Withhold Social Security?	Withhold Medicare?
Basic	No	No[1]
Coordinated	Yes	Yes[2]
Correctional	It varies[3]	Yes[3]
Police and Fire	No[4]	Yes[5]

[1] Do not withhold Medicare unless you know that the member voted for Medicare coverage in the referendum held in 1989.
[2] Medicare is required for all employees hired after March 31, 1986.
[3] Social Security coverage can be provided only if a referendum extending such coverage was held by the employer and approved by the eligible member(s). Contact PERA for information about a specific employer.
[4] An exception must be made for tribal police officers who are Police and Fire members. The Social Security Administration and the Internal Revenue Service have determined that tribal police officers must make Social Security contributions in addition to the PERA contributions.
[5] Medicare is required for all employees hired after March 31, 1986. Police and Fire Plan members who have been continuously employed by the same employer since before 4/1/86 are exempt from the Medicare program.

Determining Social Security and Medicare coverage for individuals in positions that provide coverage under the Defined Contribution Plan varies based on several factors. See Chapter 4 Defined Contribution Plan.

Remitting Payments

Minnesota law requires employers to remit full payment of all employees' PERA deductions and the total employer contributions due at the end of each payroll cycle. You will remit such payments using either PERA's Electronic Funds Transfer (EFT) process or by sending a paper check. Both methods are described below.

Your payment must be *received* by PERA within 14 calendar days of the date the employees were paid (often referred to as the "check date"). When the 14th day falls on a weekend or holiday, payment is due by the last business day prior to the weekend or holiday. If payment for Defined Benefit Plan contributions is received later than 14 calendar days after the employees were paid, PERA is required by law to assess a late charge for the payment. Interest at an annual rate is charged from the date due until full payment was received. The current interest rates are 8.0 percent from July 1, 2015 to June 30, 2018 and 7.5 percent thereafter. The minimum late charge is $10.

A contribution payment must represent the full amount due for the applicable pay period. If your payment is less than the amount required, your unit must pay the shortage, even if it represents an employee's deduction. In the case of member contribution shortages, your unit must pay the amount due and then collect reimbursement from the wages of the applicable employee(s). PERA will charge interest at the annual compound rate set in law on a payment of shortages that is not paid within 30 days following the date the amount was initially due.

Electronic Funds Transfer

Employers should use the Electronic Funds Transfer (EFT) to remit payments to PERA. EFT is a convenient way for employers to send a payment directly from their bank accounts to PERA's account without writing a check. It is an economical alternative to checks because the employer is able to choose the day in which the bank account is debited. Materials about EFT are available under the Employer section of the PERA website or by calling the PERA office.

EFT is an economical alternative to sending checks.

Fast Fact

There are two types of EFT—the ACH Credit method and the ACH Debit method— as follows:

ACH Debit Method - Under the ACH Debit method, you would use either a special Internet system or an automated phone service to authorize an EFT payment. The payment is then transferred between your governmental unit's bank and PERA's financial institution. Both the Internet and telephone services are provided by a third-party payment processor with which PERA has contracted.

ACH Credit Method - The ACH Credit method allows you to generate an electronic request for transfer of funds using either your own self-developed application or the software program of a financial institution. The electronic payment request must be prepared in a specified format. Once sent to the financial institution, it generates an ACH transaction that debits your unit's bank account and credits PERA's account on the payment due date.

If you want to make payments using EFT, please call PERA. Generally, it takes two weeks to complete the enrollment process and you would be notified by PERA once EFT has been approved. At that point, your unit may begin submitting payments electronically.

Checks

As an alternative to EFT, you may remit payments of employee deductions and employer contributions in the form of checks made payable to the Public Employees Retirement Association. The check should contain your PERA-assigned six-digit employer number and the paid date associated with the contribution payment. (Place the data in the memo area or on the check stub.) Adding these items to a paper check can increase the time it takes for PERA staff to process the funds and post the member deductions.

Mail checks to:
PERA
PO Box 4383
Saint Paul, MN 55101-4383.

As applicable, please include all associated documents, such as invoices, paper *Salary Deduction Reports*, member enrollment or election forms, etc., in the envelope with the check.

Salary Deduction Reports

As the payroll administrator for a governmental unit, your PERA-covered employees rely on you to provide accurate payroll information in a timely manner. You fulfill this responsibility by providing specific payroll data at the end of each payroll period in which pension deductions have been withheld from employees' earnings.

With the exception of the SVF Plan, PERA uses a *Salary Deduction Report* (SDR) to collect payroll data on employees who are covered under a PERA Defined Benefit or Defined Contribution Plan. Like a contribution payment, the law requires that the completed SDR be received by PERA within 14 calendar days after the date in which the members are paid. If the SDR is received after the due date, PERA may assess a late charge of $5 per calendar day and will do so when a frequency of late submissions is noted.

When PERA receives a SDR and corresponding payment from an employer, staff reconciles the amounts and posts the payroll data to each member's account. The posted data is then used to prepare benefit estimates for members and to determine amounts payable to new retirees, survivors and members who become disabled.

Acceptable SDR Formats

PERA has established standard reporting formats for both electronic and paper forms of the Salary Deduction Report (SDR) to ensure that the information provided by over 1,800 units of government can be processed efficiently. The method used by an employer to create and send a completed SDR to PERA will depend on its computer capabilities as described in this section.

Internet Reporting

Payroll administrators with Internet access and e-mail capabilities at work are required to use PERA's Employer Reporting and Information System (ERIS) to submit their SDR. This is a web system maintained exclusively for use by PERA-covered employers. (Refer to the Chapter 6 Maintain Member and Employer Records for more information on this system.)

Authorized ERIS users can create a SDR using an online data entry process or they can transmit a properly formatted data file to PERA.

Online Data Entry

Authorized employers use ERIS to easily create a custom SDR that lists their current members. Once the online report is created, the employer inputs the PERA-eligible salary for each covered employee. Next, with a click of the "Save/Calculate" button, the system (ERIS) will calculate the required employee deductions and employer contributions. The amounts calculated by the system can be changed by the employer if rounding differences occur.

Upon entry, the SDR data are immediately checked for accuracy and employers may make corrections as needed. Employers may also save the SDR without submitting it to PERA. Saving the data on PERA's server allows the employer to work on the report in stages. Once the SDR is complete, it can be easily sent over PERA's Internet connection and an immediate confirmation of receipt is provided to the employer.

PERA retains a copy of all SDRs that have been saved or sent to PERA for up to two years and employers may print a stored report at any time.

> You may use ERIS to create a SDR using an online data entry process.
>
> Fast Fact

File Transfer
As an alternative to the online data entry process in ERIS, you may submit member salary and contribution data in a computer file. If you choose this method, you will use either your internal programmers or resources you contract to create and format a data file that meets specific requirements. The file specifications are in the Computer File Format Chapter of this manual.

Employer representatives who have the proper security rights in ERIS will transmit the data file to PERA over the Internet. The process is quick and confirmation of receipt is provided through an online ERIS message.

Only one SDR file may be sent at a time. If a data file is ever transmitted in error, the employer should promptly report the submission mistake to PERA.

Any employer that wants to move to the File Transfer reporting method must contact PERA to discuss the testing process that must be performed before electronic submissions may begin.

Paper Deduction Report
If you are a payroll administrator who does not have Internet or e-mail capabilities at work, you will use a paper *Salary Deduction Report* to provide payroll data to PERA. Before using this method, you will need to complete and mail an *Exemption from Web Reporting* form to document that you do not have the computer resources needed to use PERA's web system.

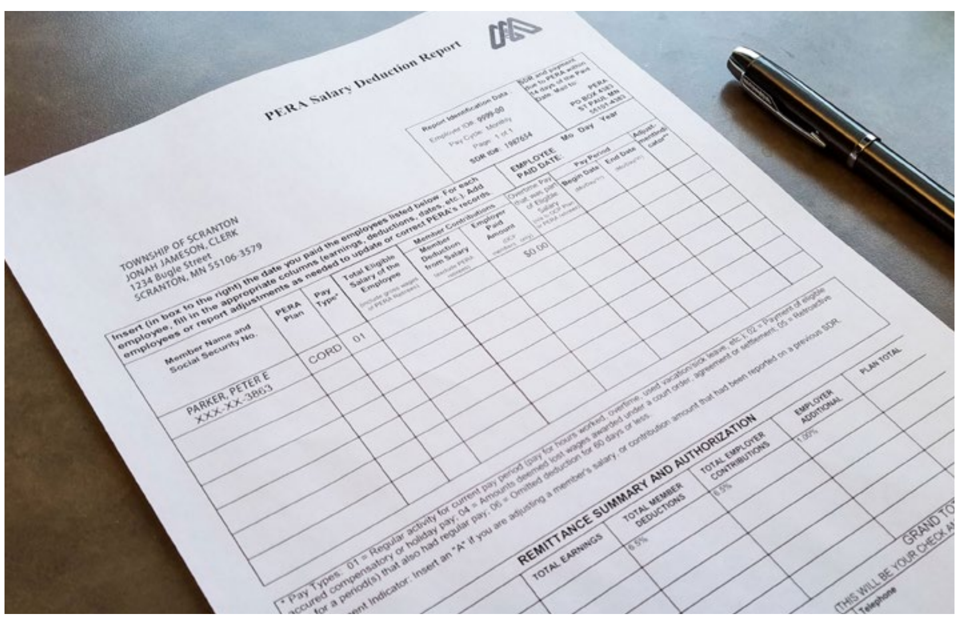
Under the paper reporting method, PERA prints a *Salary Deduction Report* (SDR) containing the names, Social Security numbers (limited to last 4 digits), and retirement plans for all active employees of your unit. PERA generates and mails the pre-printed report using the pay schedules on file for each employer. If you use the paper SDR, please keep PERA aware of any pay cycle changes that occur.

Once you receive the pre-printed SDR, you must complete all of the open items. This includes adding the paid date for the period along with each member's salary, deduction amount, earnings period, etc.

Each pre-printed SDR contains a unique identification number that enables PERA staff to quickly retrieve the electronic version of the report for data entry. Because of this numbering system, you should not make copies of any pre-printed SDR to use for a subsequent pay period. You may call PERA during business hours to request an additional pre-printed SDR.

PERA uses a Post Office box to collect the paper SDRs and related payments or documents. The address is:

PERA
PO Box 4383
Saint Paul, MN 55101-4383



SDR Contents
Regardless of the PERA reporting method you use, it is important that the information reported on the SDR is accurate and complete. This includes reporting PERA-eligible salary for the pay periods in which the amounts were *earned* by employees. Contribution coverage dates are a key factor in determining the period of service for which a Defined Benefit Plan member is entitled to pension credit.

As stated earlier, you may send the SDR data via a computer file that has been formatted to match the specifications in the Computer File Format chapter. Similarly, any employer using the paper or web SDR must provide specific payroll data as described below. For a paper SDR only, the person who completes the report must sign and date it and insert his or her job title and business telephone number.

Employer ID Number — Each report must include the six-digit identification number that has been assigned to the employer by PERA. Some employers may have been assigned more than one identification number under practices in place prior to July 2000. If you currently report contribution data under multiple PERA identification numbers, contact our office to determine if these accounts can be combined under a single employer record.

Paid Date — This is the "check date" which represents the date the pay was issued to the listed employees.

Member Name and Social Security Number — Members are listed by full name (last, first, middle initial). To add a new member, you must provide the employee's full Social Security Number the first time the person appears on the report. SDRs without the full Social Security Number of a new member cannot be processed until the missing information is obtained by PERA. (Please immediately enroll each new member into PERA.)

PERA Plan — This is the plan under which you have enrolled the employee and into which the salary and contributions are to be reported. The codes used on a paper SDR are listed below.

Plan Name	Plan Code
Basic	BASI
Coordinated	COOR
Correctional	CORR
Police and Fire	PF
DCP Ambulance	DCPA
DCP City Managers	DCPM
DCP Elected Officials	DCPE
DCP Physicians	DCPP
DCP Volunteer Firefighters	DCPV
Exempt Plan (re-employed PERA disabilitants and certain reemployed PERA retirees as well as employees who are working under a Phased Retirement Option	EXMT

Eligible Salary — Each member's PERA-eligible salary is needed on the SDR. This is the salary amount before deducting state and federal income taxes and before any voluntary employee pre-tax reductions are made. It is important to not include compensation that is not salary for PERA purposes. (Refer to Eligible Earnings, Chapter 5 for more details.) If there is no salary to report for a listed member just leave the Eligible Salary column blank.

The SDR must also include salary amounts that are earned by employees who are collecting a PERA disability benefit, drawing a retirement benefit (for employees under age 66), working under a Phased Retirement Option (PRO), or having employment with a public employer that privatized under Minnesota Statutes 353F. More information on reporting the earnings of PERA retirees appears later under Special Situations.

Pay Type — This two-digit code identifies the type of pay the employee received. Only one pay code may be entered on a line for a single member. If an employee has been paid eligible salary that represents two types of pay, such as regular wages and retroactive pay, the employer must report the salary amounts using two entries on a single SDR or could prepare a separate SDR for each type of pay. The pay type is important for awarding service credits to members of a Defined Benefit Plan (DBP) and for calculating their high-five average salaries. Acceptable codes are listed in the Figure 9.

Figure 9

Pay Code	Type of Pay	Description
01	Regular Activity	Use Pay Type 01 to report the PERA-eligible salary earned by a member in the current pay period for regular activity (wages, overtime, and paid days off). Members of the Coordinated, Basic, Correctional, or Police and Fire plans will receive one service credit for each month a deduction is taken from salary coded as Type 01. When determining contributions on pay coded as Type 01, use the rate in effect on the date the salary or wages are paid to the employees (commonly referred to as the "check date."). This pay type is also used when reporting the following: a) earnings of a re-employed retiree who is drawing a DBP benefit and who is under full Social Security retirement age, b) salary earned by a person receiving a PERA disability benefit, or c) wages of retired employees who are working under a Phased Retirement Option or for a public employer that privatized under Minnesota Statutes 353F.
02	Lump sum payments of accrued overtime or holiday compensatory hours	Use Code 02 to report periodic payments of unused, accrued overtime or holiday compensatory time, which meet PERA's definition of salary and cover an earning's period before the current pay period. If you pay compensatory pay each year to members, you must report that amount separately from the individual's regular salary and indicate the earnings period for each pay type. No additional service credits are awarded to members who receive retroactive payments; however, the pay increases the salary the member has for the applicable period. **Example**: Mark works overtime over various months and banks the hours rather than draw the pay as it was earned. At year-end, the employer's policy requires the depletion of the accrued hours; therefore, Mark is paid for the banked overtime hours. When reporting this pay, the employer creates a separate entry on the SDR for Mark's compensatory pay and identifies the earning's period as 01/01/20XX – 12/31/20XX.

Pay Code	Type of Pay	Description
		When determining employee and employer contributions on pay coded as Type 02, use the contribution rate in effect on the date the amount is paid even if the compensatory time was earned in a period when contribution rates were different.
04	Grievance Pay	Grievance pay is generally back wages awarded under a court order, settlement agreement, or grievance proceedings if the payment does not represent a wrongful discharge settlement. Under state law, amounts paid to an employee through a grievance proceeding or legal settlement agreement are subject to PERA deductions. Please refer to Special Situations later in this chapter for full details. You must create a separate entry on the SDR to report grievance pay and indicate the applicable coverage period. The employee and employer contributions due on the grievance pay are based on the rates in effect when the back pay is paid to the employee.
05	Retroactive Pay	Retroactive payments are additional wages paid to an employee for one or more pay periods *outside the current* period with the exception of compensatory or grievance pay described previously. You must create a separate entry on the SDR to report retroactive pay and indicate the coverage dates in which the pay was earned. For example, use 01/01/20XX -12/31/20XX) to indicate retroactive pay earned over a calendar year. When PERA receives retroactive pay covering more than one calendar month for a member, PERA prorates the pay into monthly amounts and increases the regular pay already reported for the member for the applicable months. No additional service credits are awarded to members for retroactive pay. Calculate employee and employer contributions on retroactive pay using the plan rate in effect on the date the amount is paid even if the earning's period falls into more than one rate period.
06	Omitted Deductions – 60 days or less	Omitted deductions represent amounts that are due on salary that was earned in the past by an employee and was not reported to PERA or subject to PERA withholding. (See Special Situations later in the chapter for more details.) Omitted deductions may be reported on the SDR only if the period of omission began less than 60 days before the beginning of the current pay period and PERA has not yet invoiced the employer for the omitted deductions due. When reporting omitted deductions on the SDR, calculate the missing contributions using the plan rate in effect on the date the amounts were paid to the employee. Report the entry separate from any regular pay and provide the beginning and ending dates for the period being corrected.

Pay Code	Type of Pay	Description
		When omitted employee deductions and employer contributions are received by PERA, the member is awarded service credits for the applicable period.

Member Contribution — The amount that was deducted from the salary of each eligible member is needed. Sometimes due to rounding differences, there is a variance (plus or minus) in the contribution amount calculated by the employer and PERA. A member contribution variance of $1.00 or less is disregarded by PERA if the total of all variances is $5.00 or less.

The member contribution field is to be left blank for employees who are working but are also drawing a PERA retirement benefit and, therefore, exempt from paying into a PERA retirement plan on their post-retirement wages.

Overtime — The amount that your agency deems as overtime pay for the listed employee. Including overtime pay began on 1/1/2015 for employees who are members of the Coordinated, Correctional, or Police and Fire plans.

Pay Period —The actual beginning and ending dates over which a member earned the reported salary are required. Most often this will reflect the dates of the most recent pay period. At times, the pay period will reflect the dates of an earlier period such as when paying retroactive wages. A single SDR may contain different pay period coverage dates for one or more members as long as the payments have the same paid (or check) date.

Adjustments — This column on the SDR is to be left blank unless you are correcting (increasing or decreasing) the salary or deductions that had been reported in one or more past member transactions. Adjustments are accepted in limited situations only as described in the Special Situations section of this chapter.

School Fiscal Year Indicator — This item applies only to school districts. It is a four-digit date filled in ONLY when an employee is paid earnings in a summer month (July, August or September) that represent a contract payout for time worked in other months of the school term. Employers need to identify summer payout amounts to ensure that the pay is credited to the non-summer months in which the employee actually worked. More details appear under Special Situations later in this chapter.

Remittance Totals — Each SDR must include remittance summary totals as listed below. PERA compares the total contribution amounts reported on the SDR to the employer's corresponding payment. Differences need to be resolved before the deduction amounts can be posted to the members' accounts. When applicable, remittance totals must reflect any positive or negative adjustments that appear on the SDR.

Total Earnings — For each PERA plan for which contributions are submitted, you will add the salaries of all employees contributing to the plan. Please keep separate the earnings a member has under more than one plan. For example, do not combine under a single plan a member's earnings from a Coordinated Plan position and a Police and Fire Plan position.

Total Member Deductions Withheld — This is the sum of employee deductions for each plan.

Total Employer Contributions — For each retirement plan, this amount is determined by multiplying the total members' earnings by the applicable contribution rate. Please calculate the employer contributions using the rate in effect on the date the employees are paid.

Employer Additional Amount — This relates only to the Basic and Coordinated Plans. To calculate the total employer additional contributions for a plan, multiply the total members' earnings by the applicable additional contribution rate.

Plan Total — This is the sum of contributions for each plan. Add the total member deductions, and the total employer contributions, and any additional employer contributions for each plan.

Grand Total — This is the sum of the total employee, employer, and additional employer contributions being made for all plans.

Special Situations

This section provides information on handling special compensation situations that may surface.

Wrongful Discharges

When the court, an arbitrator, or authorized panel determines that a public employee has been wrongfully discharged, actions are often taken to make the individual "whole" by awarding compensation in an amount equal to what the person would have been paid had employment continued.

Under Minn. Stat. §356.50, a person is entitled to voluntarily obtain allowable service credit under PERA for the uncovered period caused by the wrongful discharge when:

- a court, arbitrator, or a board, commission, or panel acting under the Veterans Preference Act, has determined that a wrongful discharge from employment occurred;
- the person is awarded back pay with respect to that discharge; and
- the award does not include an amount for any lost PERA coverage.

In the case of a wrongful discharge, the employer may not withhold PERA deductions from the back-wage payment made to the employee. Under PERA law, the affected employee is not required to make this payment. However, if the employee wants to receive PERA service credit for the period of wrongful discharge, he or she has the option to do so, but must work directly with PERA to complete the process. (IRS regulations for governmental plans do not allow a member's optional payment of pension contributions to be tax-sheltered amounts that are made through a salary reduction (employer "pick up"). Instead, the employee contributions must be remitted to PERA directly through a personal check.

If a member wishes to obtain service credits for a period of wrongful discharge, the person must pay an amount equal to the contributions that would have been paid had the individual worked during the applicable period. Sometimes, a settlement agreement reduces an employee's back-pay award because the person received unemployment compensation, workers' compensation, or had wages from other employment. In this situation, PERA must add those amounts to the actual back-pay award to ensure that employee and employer contributions are based on amounts that reflect the salary or wages that the employee would have received if he or she had not been wrongfully discharged.

If a member makes a voluntary payment for the period of wrongful discharge, PERA will invoice the employer to collect the required employer contributions and charge annual interest as required by law. The voluntary member payment, which is based on the contribution rate(s) in effect for the period of lost service, must be made within 60 days of either the receipt of the back pay or a billing from the retirement fund, whichever is later. The employer payment must be made within 30 days of the date in which PERA receives the member's payment.

Paying Lost Wages for a Period of Suspension or a Period of Involuntary Termination that is not a Wrongful Discharge

Effective May 24, 2013, if an employer awards a payment of lost wages to an employee through a grievance proceeding, settlement, or court order, for a prior period of suspension or period of involuntary termination, that is not found to have been a wrongful discharge, the amount is subject to mandatory employee and employer contributions if it meets the following criteria:

1. It is attached to a specific earnings period in which member's regular salary was not paid due to a suspension or a period of involuntary termination,

2. It is at least equal to the average regular earnings the person had been receiving during the six months of PERA-covered employment immediately prior to the suspension or period of involuntary termination; and

3. It does not exceed the compensation that the public employee would have earned if regularly employed during the applicable period.

In this situation, the employer must report the back-pay award on the Salary Deduction Report. The employee and employer contributions due on the grievance pay are based on the rates in effect when the back pay is paid to the employee. No interest will be due on the back-pay amount if the payment is received in the PERA office within 14 days of its paid date.

To report the back-pay award, the employer would add a separate line to the SDR that includes the salary amount, the pay type 04 to indicate a grievance or settlement payment, and the coverage dates of the back pay. It is important to include the full coverage dates associated with the back pay to ensure that the member will receive proper service or salary credit.

Earnings of Working Retirees

Employers that employ PERA retirees must in most cases report the wages earned by those employees, but will not withhold any PERA deductions from those amounts.

PERA law requires you to report the earnings of all employees working under a Phased Retirement Option (PRO) Agreement and employees who are drawing PERA retirement benefits, are under age 66, and are working in a non-elected public service position. (The PRO is available only to Coordinated or Basic Plan members age 62 or older. Individuals who agree to employment under the PRO may begin collecting their PERA retirement benefits without a formal termination of employment or break in service. More information is available in Chapter 6 Maintain Member and Employer Records and on PERA's website.) At your option, you may report the earnings of all reemployed PERA retirees— including retirees who are over age 66.

You will report an employee's post-retirement earnings on a pay period basis on your *Salary Deduction Report*. The earnings are listed under the Exempt Plan (Plan ID 99). No employee deductions or employer contributions are payable on the salary earned after PERA retirement.

FICA Coverage of Retirees
Rehired retirees and former members of the Coordinated Plan who are working under a PRO agreement are subject to both Social Security and Medicare if the positions they hold would otherwise qualify for coverage under the PERA Coordinated Plan or the Correctional Plan.

On the other hand, rehired retirees who hold positions that would otherwise be covered under the PERA Police and Fire Plan or the Basic Plan are not subject to Social Security withholding but are subject to Medicare. (If your elected sheriff is a reemployed retiree who is drawing a benefit from the PERA Police and Fire Plan, refer to Chapter 4 Defined Contribution Plan for information on Social Security participation for that position.)

Summer Payouts for Schools

All PERA-eligible salary is to be reported based on the period in which the compensation was earned. Adhering to this requirement is sometimes complicated for school districts that allow employees to work fewer than 12 months (commonly 9 or 10 months) and extend their pay checks over 12 months.

In these situations, special reporting is needed when reporting earnings for pay periods in which the employee has not actually worked, but is drawing a pay check. The employer must report the "contract payouts" correctly to ensure that the salary of each affected member is properly recorded in the PERA account. The reporting requirements covering summer payouts are as follows:

1. Include the 4-digit School Fiscal Year (such as 2015) when reporting summer pay-out salaries issued in June, July, or August. Do not include the fiscal year data when reporting salary that was earned during any non-summer months as it may affect the member's service credits or average salary amounts used to calculate benefits.

2. The School Fiscal Year Indicator must only be used when reporting regular salary (pay type 01). If this indicator is connected to other pay types, the transaction will be flagged by PERA as a potential error.

3. Each summer payout amount must have a coverage period that is different from other pay periods reported for the member. For example, if you issue two summer payout checks to one employee, report two different earnings periods to PERA.

   The coverage period you associate with a summer payout can reflect the actual pay cycle of the summer months such as 6/1/15 - 6/15/15 and 6/16/2015 - 6/30/2015 for semi-monthly cycles. On the other hand, each transaction could contain "artificial" pay period dates as long as the length of the coverage period is at least 5 days such as 6/1/2015 - 6/6/2015 or 6/2/2015 - 6/7/2015.

When PERA receives earnings coded with the School Fiscal Year Indicator, the reported salary is spread across the calendar months in which the employee actually worked during the applicable school year (such as September 2014 – June 2015). The prorated amount will increase the monthly salary that had been earned by the member for the coverage period.

Example: A teacher's aide works for 9 months and has asked to be paid over 12 months. All salary issued to this employee in June, July and August 2015 will represent pay for time worked during the school term months of September 2014 through June 2015. Therefore, when reporting the payout amounts to PERA (under pay type 01) for the paid dates in June, July and August, you would insert "2015" as the School Fiscal Year and report a different earnings period for each check that you issue to the employee (such as 6/1/15 - 6/15/15, 6/16/15 - 6/30/15, and so on).

Some schools report summer payouts on the same SDR that contains salary data for employees who work year round in each of the 12 calendar months. In this situation, do not include the School Fiscal Year data for those employees that work year-round. As an alternative, you may prepare a separate SDR covering the employees who work year round and a separate SDR for those employees that receive summer payouts.

Additionally, some schools produce SDRs for all of their summer payouts at the beginning of the summer. If your unit does this, please do not send all of the reports to PERA unless you are also sending payments for the reports.

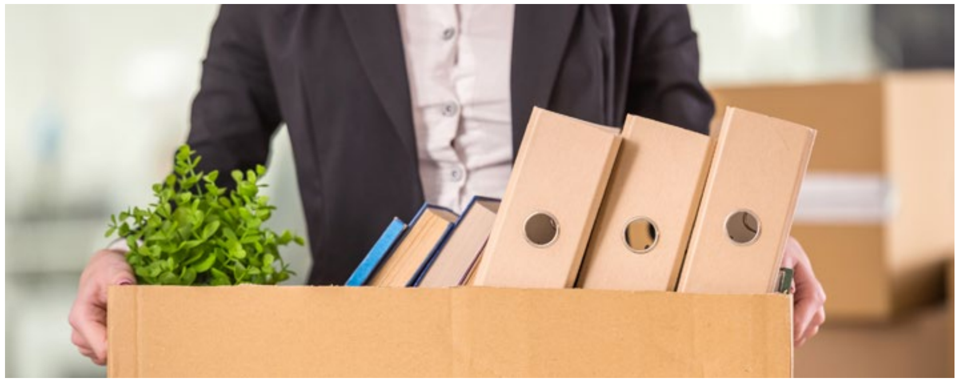
Extending Paychecks Non-Schools

Although somewhat rare, some cities, townships, or counties allow their seasonal workers to receive paychecks in all 12 months of the year even though the employees do not actually work all 12 months. Here is an example.

A golf pro working for a city performs services for 9 months each year but is paid over 12 months. The paychecks issued to this employee in December, January, and February of each year represent pay for time worked during the calendar months of March through November.

In this situation, when reporting the payout amounts for the December, January, and February payroll dates, the employer must report the earnings as retroactive pay (pay type 05), rather than regular pay. In addition, the employer must provide coverage dates that reflect the full period of employment for that year, such as 03/01/2015 through 11/30/2015 in our example.

PERA members who are employed on a seasonal basis are entitled to up to three months of service credit for periods in which they do not have earnings because work is not available to them. To get the layoff credits, however, the employer must report the temporary layoff to PERA. Refer to Chapter 6 Maintain Member and Employer Records for information on reporting employment status changes.



Adjustments

There are certain times in which employers may make adjustments on a *Salary Deduction Report* (paper, web, or computer file) and avoid additional paperwork, billings, or credits from PERA. Adjustments are separate transactions added to the *Salary Deduction Report* (SDR) to increase or decrease the amount of salary or deductions that had previously been reported for a member.

When adding an adjustment to an SDR, please follow these guidelines:

1. Use the plus sign (+) on a paper SDR or in a computer file to identify an amount that is an increase. (This is not necessary for web SDRs created online using ERIS.)

2. A negative adjustment is not allowed for a member of a Defined Contribution Plan and is accepted on a member of a Defined Benefit Plan only in specific situations authorized by PERA. When allowed, a negative adjustment must include the minus sign (-) to identify that the amount is a subtraction.

3. The period dates for an adjustment must match the starting and ending dates that had been reported for the original transaction(s) being modified. A separate transaction must be added to the SDR for each pay period that is being adjusted.

4. Use the contribution rate that was in effect for the original salary transaction. The current contribution rate, if different, does not apply.

5. If making an adjustment on a paper SDR or via a computer file, insert the Adjustment Indicator of "A" in the appropriate column. (This indicator is not necessary for SDRs created online using ERIS.)

6. You may not use a positive adjustment to report both salary and deductions that were omitted for a member. If contributions on behalf of an eligible employee were delayed, the omission must be corrected using the procedures described under 'Omitted Deductions."

7. The SDR summary and grand totals must factor in adjustment amounts when applicable.

If you transmit the SDR data in computer files and have not automated the adjustment process, you may use PERA's *Electronic Adjustment Reconciliation Form* to report adjustments. If using this form, your payment amount must equal the totals reported in the SDR file and any additional amounts or credits reported on the reconciliation form.

Positive Adjustments

A positive adjustment is often times included on a SDR to correct a situation in which a member's salary for a prior

pay period was understated but the correct deduction amount had been reported to PERA. A positive adjustment is also used when a member's deduction was underpaid for the reported salary amount.

An example of a positive adjustment to increase a member's earnings for a single prior pay period is shown in Figure 10.

Paper SDR Example: Let's say you reported earnings of $3,000.00 for Tom Jones and member deductions of $157.50 on an SDR that you filed with PERA. The earnings period covered 1/16/15 through 1/31/15 and had a paid date of 2/11/15. After sending the SDR to PERA you realized that the member deduction was short by $37.50. (It should be 6.5% of salary or $195.00.) The employer contributions were in the correct amounts however.

To correct the member deduction on PERA's records, you could add a positive adjustment for Tom on the next SDR covering the pay period of 1/16/2015 through 1/31/2015. You would report an additional $37.50 as member deductions on the salary that Tom earned from 1/16/15 through 1/31/15. The contribution adjustment would look like this on the paper SDR: (The adjustment, if made on the web SDR, would be the same except the plus sign (+) would not be part of the entry.)

Figure 10

Name and SSN	Plan	Pay Type	PERA Salary	Member Deduction	Begin Date	End Date	Adjustment Indicator
Jones, Tom -8888	CORD	01	0.00	+37.50	1/16/15	1/31/15	A

When PERA processes this adjustment, Tom's earnings for the stated pay period in January will remain unchanged at $3,000.00; however, his employee contribution will be increased by $37.50 (to $195.00).

As noted earlier in the guidelines, do not use a positive adjustment to report *both* salary and deductions that were overlooked for an eligible employee. In these cases, the omission must be corrected using the procedures described under 'Omitted Deductions."

Negative Adjustments
For members of a Defined Benefit Plan (Basic, Coordinated, Correctional, or Police and Fire), you may use a negative adjustment to correct *certain* situations when authorized by PERA. This restriction exists because certain contribution overpayments must be corrected directly by PERA and must include interest to compensation the

member for the period of time in which the money was in PERA's possession and not available to the employee as it otherwise would have been.

The following information is provided to help you evaluate when you may use a negative transaction to lower the salary or contribution amount originally reported to PERA on behalf of an employee who is a member of a DBP. (Note: A negative adjustment is never allowed for a member of the Defined Contribution Plan.)

A negative adjustment may be used when the gross pay and associated contribution amounts for a member of the Basic, Coordinated, Correctional, or Police and Fire plan was overstated.

Negative Adjustment Example 1: An employer reports wages of $1000 to PERA for 80 hours of work in February 2015 for John Doe, a Coordinated Plan member. After issuing the check, the payroll clerk realizes that John worked 72 hours and was overpaid $100. In this case, the overpayment of salary and deductions may be corrected using PERA's adjustment procedures. To correct the wages and Coordinated Plan contributions for February, the employer would insert a negative adjustment line on the next SDR to subtract $100 in salary, $6.50 in member deductions and $7.50 in employer contributions.

Figure 11 shows how to report the negative adjustment line for John Doe.

Figure 11

Name and SSN	Pay Type	PERA Salary	Member Deduction	Begin Date	End Date	Adjustment Indicator
Doe, John -6666	01	-100.00	+37.50	1/16/15	1/31/15	A

Another situation in which a negative adjustment may be used is if an employee on a Workers' Compensation leave is paid full wages and later repays the employer an amount that is equal to the Workers' Compensation award payment. Here, a negative adjustment may be made to lower the employee's wage and deduction.

Fast Fact

The use of negative adjustments is limited.

Negative Adjustment Example 2: A city reports compensation for Peter Olsen of $2,000 under the Coordinated Plan for two weekly pay periods in May 2015 while he is on a Workers' Compensation leave. The amount reported represents the full salary that Peter would have received during the two pay periods had he not been on leave. The city is paying full wages using Peter's accrued sick leave hours.

Peter receives a check from Workers' Compensation representing two-thirds (about 67 percent) of his usual weekly pay and subsequently writes a personal check to the city to repay that amount and restore some sick leave accruals. Upon receiving payment, the city must reduce the salary that had been reported to PERA because the amount Peter received in Workers' Compensation benefits is not PERA-eligible salary. To correct PERA's records, the city must lower Peter's salary for both pay periods to reflect the difference between the Workers Compensation award (67% of salary) and the full amount initially paid by the city ($2,000).

In this example, the city would report two adjustments on the SDR as shown in Figure 12.

Figure 12

Name and SSN	Pay Type	PERA Salary	Member Deduction	Begin Date	End Date	Adjustment Indicator
Olsen, Peter -5555	01	-1340.00	-87.10	5/03/15	5/07/15	A
Olsen, Peter -5555	01	-1340.00	-87.10	5/09/15	5/14/15	A

To complete the adjustment, the employer would lower the employer contributions to the Coordinated Plan by $201.00 ($2680 X 7.5%) and include this credit in the SDR grand total.

Sometimes an employer may use the adjustment process to correct a situation in which deductions were withheld for credit in PERA and the employee should have had coverage under the Teachers Retirement Association (TRA). See Coverage Error between PERA and TRA later in this chapter for more information.

Omitted Deductions

Current employees are not liable for omitted member deductions due beyond a 60-day period.

Fast Fact

On occasion, an employer may mistakenly delay the enrollment of an eligible employee into a Defined Benefit Plan (Coordinated, Basic, Correctional, or Police and Fire). And sometimes, an employer may fail to report all eligible salary and deductions for a member. In both instances, PERA considers the missing employee and employer amounts to be "Omitted Deductions."

When omitted deductions are discovered, the employer must enroll the employee into the proper retirement plan and begin to withhold PERA deductions from the employee's eligible salary. Relating to the period in which deductions had been omitted, the member is responsible for paying the employee deductions due for the 60 days of earnings immediately before the pay period in which PERA deductions were first withheld.

If the period of omitted deductions is past due for more than 60 days, the employer must allow PERA to compute all missing employee deductions and employer contributions. In these situations, annual compound interest as set in law is charged. PERA will send a billing to the employer.

Under the law, an employer that pays employee contributions on behalf of a member may not recover the amounts from the employee. If PERA were to receive a payment from an employee for omitted deductions beyond the 60-day omission period, the payment would be returned to the member and PERA would request payment from the employer.

It is important to note that there is a three-year statute of limitations on collecting omitted deductions. PERA may bill for omitted deductions due on eligible salary earned in the calendar year in which the contribution omission is discovered, plus the three previous calendar years.

If omitted deductions are due on earnings for an employee who has terminated employment, the omitted employer contributions plus interest are still due. The employer will not, however, be billed for the employee's share of omitted deductions. Under this circumstance, the terminated employee will have the option to pay the omitted employee deductions to obtain service credit for the period in question.

How omitted deductions are reported to PERA varies as described below.

Adding Omitted Deductions to the SDR

If the period of omission began less than 60 days preceding the beginning of the current pay period, an employer may calculate the omitted employee and employer contributions and report the total salary amount and deductions covering the full period on a *Salary Deduction Report* (web, paper or computer file).

To report an omitted deduction period of 60 days or less, the employer would add a separate line to the SDR and use the pay type 06 to indicate an omitted deduction. Both the salary and employee deduction amounts must be included in this transaction, along with the coverage dates of the omitted deduction period. It is important to include the full coverage dates associated with the omitted deductions to ensure that the member will receive proper service or salary credit. Finally, the plan summary totals and the grand total of the report must be increased accordingly.

Example (60-day omitted deduction): An employee, who is projected to have annual earnings of $16,000, made $500 from April 12, 2015 through April 25, 2015 and $650 from April 26 through May 8, 2015. No PERA deductions were withheld. The employer finds the oversight and on the next payroll period beginning May 9, 2015 withholds PERA deductions from the employee's earnings. Since the employee clearly qualified for mandatory PERA membership on April 12th, omitted deductions are due on all earnings from April 12, 2015 through May 8, 2015. The omitted employee and employer contributions must be calculated using the rates in effect when those earnings were paid to the employee.

In this example, the employer may report the omitted deductions for the two pay periods on a single SDR. The SDR entry would reflect the total salary of $1,150 and the coverage dates of April 12 through May 8, 2015. (The pay type would be 06.) Employer contributions must also be paid on the employee's earnings, but no interest would be due.

Omitted Deductions Billed by PERA

When the period of omitted deductions is past due for more than 60 days, the employer must allow PERA to compute all missing employee deductions and employer contributions. In these situations, annual compound interest of 8.0 percent from July 1, 2015 to June 30, 2018 and 7.5 percent thereafter is charged. PERA will send a billing to the employer.

For PERA to bill for omitted employee and employer contributions, an employer will need to take the following steps:

1. Withhold the correct member contribution amount from the employee's current salary. If the employee has not been enrolled in PERA, provide the member's enrollment data or form.

2. Submit a list of earnings, by pay period, for the full omitted deduction period or for the current calendar year plus the three previous calendar years, whichever is shorter. The list of earnings may be submitted on the PERA-Individual Record of Earnings form.

3. Wait for a billing. PERA staff will review the earnings data you provide, compute the employer and employee contribution liabilities with interest, and send an Omitted Deduction Billing Report.

4. Send full payment to PERA upon receipt of the invoice. If the billing covers more than one employee and full payment cannot be sent for all employees listed, the employer should identify on the invoice the employees for whom payment was not sent, the unpaid amount, and the reason for the delay. PERA must have an explanation of why a payment does not equal the grand total to determine which member accounts to credit. When sending payment, please submit a copy of the omitted deduction invoice with the payment.

Deductions in Error

At times, it is discovered that employee deductions have been credited to a current or former member's PERA account in error. How a deduction in error situation is corrected is governed by Minnesota Statutes. In some situations, the law limits the period that can be corrected retroactively; therefore, employers should not attempt to correct deductions in error independently.

Deductions in error fall into three categories based on the circumstances as follows:

1. If an employee had deductions withheld for coverage in a PERA retirement plan and it is later determined that the position or person did not qualify for PERA membership, the error is referred to as "erroneous membership."

2. If amounts that are not salary for PERA purposes were subject to retirement plan withholdings by mistake, the error is categorized as "ineligible salary." This category will also include contributions made on compensation that exceeds the annual limits under IRC Section 401(a)(17) or the contribution limits under IRC Section 415(c) for participants in the Defined Contribution Plan.

3. If an employee was enrolled in the wrong PERA retirement plan (such as the Coordinated Plan when the position qualified under the Defined Contribution Plan) or an employee was enrolled in the wrong retirement system (such as PERA but should have been under the Teachers Retirement Association), the error is referred to as a "plan coverage error."

If you believe that retirement deductions have been paid in error on behalf of one or more employees, provide an explanation to PERA. The steps taken to correct the error will depend upon the type of error as described below.

Erroneous Membership

Defined Benefit Plan—

If an employee has been covered under the Coordinated, Correctional or Police and Fire Plan and the individual never met the requirements for membership in that plan or another public retirement system in Minnesota, the erroneous membership is corrected in one of two ways:

If the membership coverage began *on* or *after* January 1, 1990, PERA must refund the invalid member deductions to the employee with compound interest at the rate paid to terminating employees who take a refund of their contributions. At the end of the calendar year in which the refund covering erroneous membership is issued, PERA will mail a Form 1099 to the individual for tax reporting purposes. Relating to the invalid employer contributions, PERA will issue a credit to the employer. No check is issued to the employer because state law and federal regulations require that the invalid contributions be kept in the plan and used to offset future employer contributions.

If the erroneous membership began before January 1, 1990, the employee has the option to continue or discontinue PERA coverage. In this instance, the employer should continue withholding deductions from the employee's earnings and send a letter to PERA explaining the reason the employee does not qualify for coverage. PERA will notify the employee of his or her options and subsequently notify the employer of the employee's decision regarding membership.

Defined Contribution Plan—

On the other hand, if a current or former public employee was under the Defined Contribution Plan (DCP) and the individual does not qualify for coverage in that plan or any of the Defined Benefit Plans administered by PERA, the employer must notify PERA of the error and immediately stop withholding DCP deductions.

With respect to the DCP deductions made in error, PERA will issue a refund to the individual in an amount equal to the actual deductions withheld from the person's salary. The employing unit will be credited for the employer contributions after subtracting administrative fees. Any gains that exist at the time of the member refund are divided between employee and employer in proportion to the amounts paid by each.

Sometimes due to investment losses, the balance in a person's DCP account is less than the total member contributions originally remitted. When this occurs, the difference is reflected in the amounts credited to the employer. If the DCP account balance is lower than the original member deductions, PERA collects the difference from the employer.

Ineligible Salary

Under Minnesota Statutes certain forms of compensation are excluded from the definition of eligible salary and may not be used for purposes of calculating retirement plan contributions or benefits. (Refer to Minn. Stat. §353.01, subd 10 and Chapter 5 Eligible Earnings.)

In addition, there are annual compensation or contribution limits that cannot be exceeded. (See Compensation or Contribution Limits earlier in this chapter for details.)

A statute of limitations may mean that some ineligible salary amounts remain credited to the employees.

Fast Fact

If PERA determines that deductions have been taken from amounts that are not salary for pension purposes, the employer must immediately stop reporting the invalid contribution amounts to PERA. Further, PERA will remove all ineligible salary that is reported during the fiscal year (July 1 through June 30) in which PERA discovers the error and the two preceding fiscal years. Amounts reported to PERA prior to three fiscal years will remain credited to the member(s) and be treated as valid salary.

Any refund of employee deductions that had been taken from ineligible salary must be issued to the member by PERA and will include interest at the same rate paid to members who take refunds. At the end of the calendar year in which a refund has been issued, PERA will mail a Form 1099 to the individual for tax reporting purposes.

PERA will issue a credit of employer contributions that had been made on ineligible salary. The employer will then use the credit to offset future employer contributions that are payable to PERA.

Plan Coverage Errors

Employers should not attempt to correct PERA plan coverage errors on their own. In these situations it is better for PERA to assess the situation and determine the proper steps to take.

If a public employee has been covered under the Coordinated, Basic, Correctional or Police and Fire Plan and the individual should have been covered by a different retirement plan, including a plan administered by the Teachers Retirement Association or the Minnesota State Retirement System, the employer must immediately enroll the employee under the correct retirement plan and begin to withhold the proper amount from the salary of the employee.

Under laws in effect since July 1, 2010, the employee's coverage will be adjusted retroactively only if the period of correction is limited to the fiscal year (July 1 through June 30) in which the plan coverage error is found and the two preceding fiscal years. If the plan coverage error began before this three year limitation period, the past employee contributions are considered valid and remain credited to the member. No correction of plan coverage errors will be made on the accounts of terminated employees.

Coverage Error between Two PERA Plans

When a plan coverage error relating to an active member of the Coordinated, Correctional or Police and Fire plans can be corrected retroactively, PERA will determine if the total amount standing in the member's account is more or less than the amount needed for the period being corrected.

If the coverage error caused excess contributions to be remitted, PERA will refund the excess employee deductions to the member with interest and credit the employer for the excess employer contributions. On the other hand, if additional amounts are needed to correct the plan coverage error, PERA would collect the required employee and employer contributions from the employer. No interest will be due if the additional amounts are received by PERA within 30 days of the invoice date.

To correct a situation in which a public employee was provided coverage under the Coordinated, Correctional or Police and Fire plan and should have been under the Defined Contribution Plan, PERA will transfer the erroneous employee deductions and employer contributions to the DCP once the employer has enrolled the person under that plan. No statute of limitations currently applies in this situation. Furthermore, the transfer of funds to the individual's DCP account will include interest at the same rate paid to members who take refunds.

Coverage Error between PERA and TRA

Sometimes, an employee of a school district is enrolled in the PERA Coordinated Plan and should have been covered by the Teachers Retirement Association (TRA) or vice versa. In these situations, the first corrective step to take in all situations is to enroll the employee under the correct retirement system and withhold the proper deductions from the employee's next pay check.

The second step is to determine whether or not a retroactive correction will be made to change the system under which the past contributions are credited. The laws that govern both PERA and TRA provide that if the coverage error began within the current or preceding two fiscal years, a retroactive correction must be made to give the employee credit under the proper retirement plan.

When retroactive correction is called for, PERA will accept a negative adjustment on the Salary Deduction Report to correct the coverage error provided the period involved is limited to the current school year or calendar year only. If the period goes back to a previous school and/or calendar year, PERA will work with TRA to make the retroactive correction through a transfer of funds between the two systems.

If employee and employer amounts received by PERA are fully or partially payable to TRA, we will ask TRA to determine the total employee and employer contributions that should have been paid for the period of eligibility. PERA will then transfer to TRA either all of the invalid contributions in the member's account or the exact amount that is payable to them.

Once the transfer of funds is made, any excess employee deductions remaining in the PERA account will be refunded to the member with interest. Likewise, any excess employer contributions would be credited to the employer. Conversely, if the amount transferred from the PERA account does not cover the employee contributions payable to TRA, the employer will need to collect the additional employee and employer contributions.