

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN
ELECTED OFFICIALS' RETIREMENT PLAN**

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TO: Payroll Supervisors
FROM: LaDawn Toger, Active Members Manager
RE: Contributions to the Corrections Officer Retirement Plan
DATE: June 2011

We are enclosing the transmittals to be used for the first pay period ending **on or after** July 1, 2011.

FURLOUGH & LWOP

In this current economic environment and with the tough personnel decisions that are being made by our employer groups such as salary reductions and furloughs, the system has reviewed the current process of determining leave without pay. Previous practice has been that service was counted daily. So, service and credited service were based on a daily accrual.

In review of this current methodology, it has been determined that this would unjustly penalize those members that were required to take mandatory furlough day(s). So the decision has been made that furloughs will not be considered leave without pay in the calculation to determine credited service. The statutes define credited service as "a compensated period for which the member made contributions to the system or plan." As such, credited service will be applied to any member who makes a contribution to the system or plan. If a contribution for a particular pay period is missing, i.e. not made, the system or plan will consider that leave without pay on a pay period basis as opposed to a daily tracking. The tracking or calculating of service credit by pay period is more consistent with the statutory definition.

REDUCED HOURS

If the reduction is temporary in nature, the employer will be allowed to furlough employees and CORP will not count the reduction as LWOP (see discussion above regarding furloughs & Lwop). However, the employee will be contributing at a reduced rate. If this reduced time period is taken into account when calculating the retirement benefit for an individual, it "could" result in a slightly reduced benefit. However, CORP and PSPRS are obligated by statute to calculate on the highest 36 months. Therefore, the reduced contribution may have only a marginal affect, if any, on the pension amount. Additionally, employers may extend the time period of the reduction of hours as long as the reduction does not become permanent.

MEMBER QUALIFICATIONS

In order to qualify as a member of the system, an employee must meet **all** of the following qualifications: (a) full-time paid person employed by a participating employer in a designated position; and (b) receiving salary for personal services rendered to a participating employer or would be receiving salary except for an authorized leave of absence; and (c) whose customary employment is at least forty (40) hours each week.

All part-time contributions will be returned to the employer. This will include contributions for seasonal employees that do not meet the statutory requirement for a member as outlined above. Part-time contributors may be eligible to contribute under ASRS. Contact ASRS for additional information.

W-2 ISSUES

Please remember that all CORP member contributions are made with pre-tax dollars. **You must reduce a member's taxable income on their W-2 by the amount of member contributions to the CORP.** Our members are participants

in a "qualified pension plan" as described in section 401(a) of the Internal Revenue Code.

MILITARY SERVICE

Several of you have asked for guidance regarding the contributions for members who were called up for active duty (A.R.S. Section 38-907). The employer shall make employer and employee contributions for anyone who was an active member of the system, not to exceed 48 months, if the following requirements were met: a) is a member of the Arizona national guard or is a member of the reserves of any military establishment of the United States; AND, b) volunteers or is ordered into active military service of the United States as part of a presidential call-up; AND, c) is honorably separated from active military service and returns to employment for the same employer from which he left for active military service within 90 days after the date active military service is terminated.

Basically, the statute says that the employer shall make all the employer and employee contributions **after** the member returns from active military service. The contributions will be based on the member's salary before they left for duty. The employer is responsible for making sure that the member was honorably separated from military service.

Additionally, if the member is absent from a position of employment by reason of service in the uniformed services (**not** as part of a presidential call-up as required under Section 38-907) the USERRA specifies that periods of military service must be considered credited service for pension purposes. Therefore, contributions must be made by the employer for active duty, training for active duty and inactive duty, and full time National Guard duty if the member chooses to make up the employee contribution.

COVERED COMPENSATION

The general rules guiding contributions to CORP system (A.R.S. Section 38-891) indicate the amount of contributions to the plan. Generally it requires that contributions be made on "salary". A.R.S. Section 38-881, subsection 41, defines salary as follows:

"Salary" means the base salary, shift differential pay, military differential wage pay and holiday pay paid a member for personal services rendered in a designated position to a participating employer on a regular monthly, semi-monthly or biweekly payroll basis. Salary includes amounts that are subject to deferred compensation or tax shelter agreements. Salary does not include payment for any remuneration or reimbursement other than as prescribed by this paragraph. For the purposes of this paragraph, "base salary" means the amount of compensation each member is regularly paid for personal services rendered to an employer before the addition of any extra monies, including overtime pay, shift differential pay, holiday pay, fringe benefit pay and similar extra payments.

Since we believe it would be unfair to require contributions on salary which cannot be included in the retirement calculation, we use this definition to determine required contributions. In general, you will note that regular salary-type compensation paid on a regular basis at least monthly requires contribution. Base salary would include normal pay as well as vacation or sick leave used. In addition, special pay, such as shift differential and holiday pay, is to be included as long as it is paid on a regular payroll basis. These payments should be paid when earned and at the same time that base salary for the pay period is paid in order to be included in the contribution calculation.

In general, contributions should not be made on overtime or fringe benefits; i.e., health insurance, tuition payments, uniform allowance, etc. or lump sum payoffs; i.e., unused sick leave, payment in lieu of vacation, or payment for compensatory time. It is important to note that even normal pay, such as base salary, cannot be included in the contribution calculation if it is not paid on a regular monthly, semimonthly, or biweekly payroll basis. **Therefore, the timing of the payment is as important as the type of payment.** This is done to prevent the manipulation of income from the period earned to another period to enhance the three-year (36-month) average salary used in the retirement calculation. The whole idea here is to get a fair picture of salary earned during a considered period. These base salary numbers affect both the retirement calculation and the yearly actuarial studies used to set the employer contribution rates.

PAYROLL LOGIN AND WIRE TRANSFERS

If you are not sending your contribution data in to us via the website, please begin to do so now. You can go to Employer Payrolls and then Payroll Login under www.psprs.com. Our goal for this fiscal year is to go paperless and transition all employers to electronic submission of contribution data. Also, PSPRS is set up to receive contribution payments through Wire transfer. Please contact our office for more information on this option.

TIMING OF CONTRIBUTIONS

Please remember that contributions should begin with the member's first day of covered employment. The CORP laws require that member contributions must be made by payroll deductions as a condition of employment. Moreover, member and employer contributions must be made to the CORP within **TEN** (A.R.S. 38-891, subsection C) **working days** after the payroll date, and A.R.S. 38-894(D) requires that contributions after that date must incur a ten per cent per annum penalty paid for by the employer. If contributions are not made after the first day of covered employment, either because the payroll office did not receive the proper notice, or the member retirement status was coded incorrectly, the missing contributions must be **immediately** paid to the CORP along with the penalty. The CORP laws do not allow a member to make up contributions that somehow were not sent to this office in a timely manner through a payment plan. The proper procedure is for the employer to make the correct contributions plus penalty with a lump sum payment. If this lump sum payment would be a hardship to the employee, the employer could make this payment on behalf of the employee and arrange a payment plan between the employee and employer.

The penalty for late contributions will be ENFORCED. If the contributions are late, i.e. received by CORP after TEN working days from the payroll date, you will be contacted and instructed to pay the late penalty.

STATUS REQUIREMENTS FOR ACTIVE MEMBERS

We are requesting that employers inform us when active members are placed on a status other than that of a full-time employee. This information is essential when calculating "credited service" for retirements, actuarial valuations, refunds or transfers. When the status is changed we are asking that payroll/Human Resources furnish a status report to us that would list only those employees who are on a status other than full-time, active. We will need the date the status begins as well as when it ends. Here are the status codes listed below:

- **M** (Military) – Members of national guard/reserves during period of presidential call-up. Contributions required upon return to full-time employment.
- **IL** (Industrial Leave) – Members contributing during periods of Industrial leave. Member may elect (based on full-time normal pay) to contribute. Form C19 must be submitted to this office.
- **P** (Part-time/Seasonal) – Less than full-time employment as defined in the Statutes. These employees are not eligible to contribute to PSPRS, but does not include those full-time employees temporarily assigned to part-time duties. This status is for noting the error that they were mistakenly included as PSPRS contributors.
- **L** (LWOP) – Authorized leave without pay. This includes, but is not limited to, those employees who are on FMLA (family leave), military leave that is not part of a presidential call-up, employer sponsored short- or long-term disability, industrial leave and not contributing, or are temporarily working part-time and will return to full-time status. Please indicate on exception report the reason for LWOP.
- **T** (Termed) – Termination date must be given.

We have implemented programming and procedures to monitor contributions to insure that member's contributions are accurate and complete. By providing this status information at the time of the event, you will help to eliminate needless and inefficient work for both the Administrative and Local Board offices.

ALTERNATE CONTRIBUTION RATE

Alternate contribution rate is required from the employer for any member that retires and returns to work. The alternate rate is determined by the actuary, consisting of amortization of unfunded liabilities for normal cost and health subsidy. Please see separate memo letter in regards to the Alternative Contribution.

