



# EMPLOYER Bulletin

## Employer Bulletin – December 2010

### Retirement Board sets Retire-Rehire exemption requirements

*What you and your employees need to know*

After careful consideration and member feedback, the MERS Retirement Board set the exemption requirements regarding the rehiring of retirees at its Nov. 10 meeting. ([Click here](#) to read the Board's formal actions.)

#### Here are a few key points about the requirements:

- Retirees rehired by the same employer **on or after** Jan. 1, 2011, must follow the MERS Retire-Rehire rules
- Retirees rehired and re-employed by the same employer **before** Jan. 1, 2011 **are exempt** from the rules, provided they:
  - Have submitted a signed retirement application by Nov. 30, 2010
  - Have an effective retirement date no later than Dec. 1, 2010
  - Retiree must be re-employed and have worked as a re-employed retiree before January 1, 2011.
- Retirees becoming a newly elected or appointed official at their same employer **are exempt** from the rules\*

*\*Retirees who retired as elected or appointed officials (or served in such official positions within 1 year before the date of retirement) are subject to the Retire-Rehire rules, Section 31(1)(a) of the Plan Document.*

#### Here are a few key points about the rules:

- 1) Retiring members **must not** have pre-arranged or discussed returning to work at their municipality. This violates IRS rules.
- 2) Retirees must have a bona fide or true retirement under IRS rules, and must have at least 30 days before rehiring with their same employer.
- 3) If a non-exempt retiree works more than 720 hours within a calendar year, their pension payments will be suspended.
- 4) Employers are required to report employment data **for all rehired retirees (including those exempted)**, regardless of re-employment date. More information about the reporting process will be coming soon.

## **Why are these rules important?**

As a tax-qualified plan under the Internal Revenue Service, MERS is required to follow IRS conditions for paying benefits. We want to be proactive in protecting our tax-qualified status, and these changes are intended to more effectively enforce the federal rules. MERS is also dedicated to helping our member municipalities' financial health through fiscal responsibility, and the rehiring of retirees carries with it many long-term implications. MERS actuary, Gabriel, Roeder, Smith & Company, outlined some of these implications in a recent report (Section III of the [Board Actions](#)), including:

- Studies show allowing the rehiring of retirees causes more employees to retire earlier, creating increased pension liabilities and long-term costs for employers
- If employers don't make pension contributions for rehired retirees, their long-term unfunded obligations will typically increase
- The pension contributions for employers with closed divisions (new hires in a different plan) will increase even more than those with open divisions

Please check the [MERS website](#) for future information and news regarding the MERS Retire-Rehire rules. To read more about the rules, please read [Plan Section 31\(1\)](#).

## **Health Care Reform & the MERS Health Care Savings Program**

*Changes to law affect two portions of the program*

As a result of the Patient Protection and Affordable Care Act, the MERS Health Care Savings Program will be affected in two ways beginning Jan. 1, 2011.

### **Expansion of the Definition of Dependent**

Beginning Jan. 1, 2011, eligible Health Care Savings Program participants may request reimbursement for qualified medical expenses for children less than 26 years of age, regardless of status (single or married, dependent or non-dependent).

### **Over-the-Counter Drug Reimbursement Changes**

A prescription will be required to receive reimbursement from the MERS Health Care Savings Program account for some over-the-counter drugs. Reimbursement for items such as allergy medications, pain relievers, antacids, and cold and flu medications will now require a prescription. However, insulin, bandages, crutches, and other medical devices will not be affected by this change. For a list of over-the-counter items that will require a prescription and those items that won't require prescriptions, please visit [www.mersofmich.com](http://www.mersofmich.com).

We will be sending additional information to Health Care Savings Program participants within the next few weeks. For more information, visit [www.mersofmich.com](http://www.mersofmich.com) or contact our Service Center at 800.767.2308. The Service Center also has new expanded hours: 8 a.m. to 7 p.m., Monday through Friday.

## Promising you low rates during tough times

*MERS Group Life & Disability rates guaranteed 3 more years*

Times are tough in Michigan's economy, and we know every penny can help your municipality. That's why we're excited to share some good news — a new **three-year rate guarantee** for MERS Group Life & Disability.

In fact, MERS Group Life & Disability rates **haven't changed since 2004**, thanks to the continued support from municipalities like yours'. We appreciate your commitment to the MERS Group Life & Disability Program. As more groups join MERS, it strengthens our purchasing power on your behalf.

MERS Group Life & Disability rates are **guaranteed until 2014**, and include great additional benefits **at no extra cost** like MEDEX® Travel Assist, Employee Assistance Program, and even ID theft protection. MERS Group Life & Disability is an affordable benefit for employers, and invaluable for employees.

If you are not already taking advantage of this program, please contact a member of your Regional Team by [clicking here](#) or calling 800.767.6377. You can also visit [www.mersgld.com](http://www.mersgld.com) for more information.

## Part-time employees and MERS membership

*What you need to know*

Recent economic hardships have forced many municipalities to take a closer look at the dynamics of their workforce. In the recent "National Survey of Local Governments Health and OPEB Funding Strategies," conducted by [Cobalt Community Research](#), 16 percent of respondents indicated they would be hiring more part-time or temporary employees.

Does your municipality employ part-time employees? Did you know they could be eligible for MERS benefits?

Here are some important points about enrolling your part-time staff in MERS:

- The number of hours they work per month determines whether or not they are eligible for MERS membership. Any employee who regularly works 10 eight-hour days in a month (or the amount of time allocated for service credit, as determined by your governing body) should be a member of MERS and is entitled to a month of service credit
- Even if the individual isn't eligible for any other fringe benefits offered by your municipality, employees who work the required hours/days to earn service credit are required to be enrolled in MERS
- A written or verbal employment contract may not exclude an otherwise eligible non-union employee from enrollment in MERS, regardless if the municipality and employee agree to the contract
- If the employee is a member of a collective bargaining group, the Collective Bargaining Agreement (CBA) may exclude part-time employees from MERS membership in some situations. The CBA language must specifically state how the MERS retirement benefits are to be administered

What if you employ temporary employees?

Even though regular part-time employees are automatically enrolled in MERS, temporary employees who are employed for less than 12 months can be excluded from MERS membership. Your municipality's governing body may exclude temporary employees that are hired, by adopting the resolution [here](#).

If you have questions about whether or not your employees are eligible for a MERS membership, please contact a member of your Regional Team by [clicking here](#) or calling 800.767.6377.

## **Big changes proposed for pension reporting**

*Government may require pension obligations on your balance sheets*

The Governmental Accounting Standards Board (GASB) has issued a [Preliminary Views](#) document on the way municipalities would have to disclose pension obligations on their balance sheets.

Currently, as long as a municipality makes its required annual contributions, there is no disclosure of a liability on a municipality's balance sheet. The unfunded obligation is disclosed in the Notes section of the financial statements.

GASB's "preliminary view" is that this needs to change by putting the unfunded pension obligation on a municipality's balance sheet as a liability.

**What would this proposed change mean for your municipality?** It depends on your funding level. For those municipalities that are well funded or even fully funded, the number to put on the balance sheet would be small or non-existent. For municipalities that are less well funded — 60-70 percent, for example — the number could be quite large and possibly dwarf the other numbers on the balance sheet.

Note that this is a preliminary view. GASB will continue to review these changes over the next year and implementation will likely be several years away.

We'll keep you informed of these and other proposed changes GASB is considering. For more information, you can read a plain-language version of the report on the GASB [website here](#).

## **Tax time is coming**

*Here's how to handle employee contribution reporting*

With tax time just around the corner, here are some important tips about how to report your employees' retirement plan contributions on their W-2s.

Thanks to MERS tax-favored status from the Internal Revenue Service, your employees have the benefit of saving for retirement without paying taxes on their mandatory contributions, until they use them later on. This "pre-tax" status doesn't apply for Social Security or Medicare withholding, only federal and state income tax.

For example, if an employee is required in 2010 to contribute 2% of their gross earnings of \$30,000 (equaling \$600) toward pension contributions made by their employer, federal and state withholding taxes would be calculated on \$29,400 (\$30,000 minus 2%), but Social Security and Medicare withholding would still be calculated on the full \$30,000.

Here are a few other key points:

- For year-end W-2 reporting, Box 1 of the employee's W-2 (Wages, tips, and other compensation) should reflect compensation AFTER pension contributions to the Plan have been deducted (\$29,400 in the above example), and Boxes 3 (Social Security wages) and 5 (Medicare wages and tips) should reflect compensation BEFORE the Plan deductions (\$30,000 in the above example). Employee contributions (like the 2% plan contribution above) are reported in Box 14 **with a code of 414(h) (2)**.
- Box 13 should be checked, for "Retirement Plan," if the employee was an active participant for any part of the year.
- For participants of the MERS Health Care Savings Plan, the tax treatment is somewhat different. Because the IRS declared the Health Care Savings Program a Section 115 integral governmental trust by Private Letter Ruling, mandatory employee contributions to the program are not reported on the W-2.
- Section 457 withholdings that are withheld for municipalities having deferred compensation plans continue to go into Box 12 on the W-2 **with a code of G**.
- In 2012, the federal Patient Protection and Affordable Care Act will require employers to report the value of employer-provided health insurance coverage on W-2s. We'll send out reminders of the new requirement in 2011. For more information, visit [www.irs.gov](http://www.irs.gov).