

# PSERS Employer Bulletin

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## **Retirement Covered Compensation**

PSERS has found instances when a salaried employee has received an additional per diem rate for working "optional days" in lieu of using vacation leave. The Commonwealth Court has ruled that payments received by a salaried employee based on a per diem rate for working "optional days" is, in fact, compensation for unused vacation leave. The per diem amount, therefore, is not Retirement-Covered Compensation (RCC) because it is not based on the standard salary schedule, nor is it compensation received for additional services rendered. The per diem payment as used in this situation is a payment received for unused vacation leave.

Regular salary and wages, overtime, extracurricular activities, paid vacation, sick and personal leave are all RCC. When earnings qualify as RCC, contributions must be made to PSERS. All other earnings are considered unqualified earnings or Non Retirement-Covered Compensation (NRCC) and no contributions should be withheld for these earnings.

The following earnings are considered NRCC earnings:

- Reimbursement for expenses incidental to employment
- Bonuses that are not performance-based
- Severance payments
- Payments not based on the standard salary schedule
- Payments for unused vacation, sick and personal leave
- Compensation for attending seminars and conventions
- Any other payments that the Board determines are for the sole purpose of enhancing final average salary

Only RCC is used in calculating final average salary for retirement benefits.

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## Proving Eligibility for Purchase of Student Employment

Retirement credit for work performed as a student (including internships) is generally ineligible for purchase because such service is often tied to conditions that make the service not part of a true employer/employee relationship. When submitting a purchase of service application to PSERS for work performed as a student for a Pennsylvania public school employer, the employee has the responsibility to provide proof that the position was a true employer/employee relationship. Such proof may come from the employer or may be supplied by the employee from records of employment history, financial aid, etc. A statement from an employer that the employment was only available to students and not the public is not the determining factor to determine if student employment is eligible to purchase for credit within PSERS.

Examples of conditions that make the service not part of a true employer/employee relationship include, but are not limited to, service performed:

- As part of a financial aid package (e.g. work study, etc.)
- In exchange for a tuition or housing waiver
- As part of the student's curriculum
- In exchange for academic credit
- As a Graduate or Resident Assistant

Employers should confirm these factors to the extent of their ability. Ultimately, the member has the responsibility to provide proof that these conditions did not exist and that there was in fact an employer/employee relationship for the service performed as a student. This information is found on the PSERS form *Eligibility of Service Credit for Work Performed While a Student at a College or University* (PSRS-1323), located on our website under Employers, Employerpedia, and Student Employment.

## Premium Assistance

Premium Assistance is a benefit provided by PSERS to help eligible retirees pay for their personal post-tax health insurance coverage through the Health Options Program (HOP) or a Commonwealth school employer health plan. Eligible members may qualify for a reimbursement of their out-of-pocket expense up to \$100 per month for their basic health insurance premium. The amount of the Premium Assistance benefit is determined by the Pennsylvania legislature and is subject to change. Premium Assistance is added to members' monthly retirement benefits and is treated as non-taxable income.

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## Returning to PA Public School Employment after Retirement

A PSERS retiree may not be employed by a Pennsylvania public school without risking the loss of his or her monthly retirement pension unless he or she qualifies for specific exceptions. The Retirement Code defines these exceptions as employment due to an emergency, a shortage of personnel, and extracurricular situations.

Some situations may seem like legitimate return to service exceptions but, in actuality, they are not. Let's take for example Bob Smith. Bob is an administrator working for a Pennsylvania School District. In the middle of his four-year contract, Bob decides to retire immediately but agrees to continue to work the remainder of his contract as an annuitant in an employment emergency or personnel shortage. The school district agrees to the deal because Bob's sudden retirement has caused an "employment emergency or a personnel shortage." This particular scenario is not a legitimate return to service exception because employees cannot create their own employment emergency or personnel shortage by retiring. Pennsylvania's Commonwealth Court has upheld that this is not a genuine emergency, but in fact a continuance of their active employment.

Employers must first make the effort to consider a non-retiree before hiring a retiree for any position. PSERS has the right and may conduct investigations into instances of employers hiring retirees when other options may be available. The employer will be required to provide documentation to PSERS to support the need to employ a retiree in an emergency or shortage position.

If PSERS finds that a retiree working for you does not qualify for any of the return to service exceptions, the retiree's monthly pension will be suspended. The retiree will also need to repay any retirement benefits received after the return to service date and before the pension was suspended. Even if the employment is for a short period of time, the retiree's monthly pension may be reduced due to the debt incurred by the return to service. The employer will be billed the employer contributions for salaries the retiree earned during the return to service period.

For more information on the return to service exceptions, employers and PSERS members should refer to the PSERS publication, *PSERS Return to Service Guidelines and Clarifications* (PSRS-9682) found on the PSERS website under Publications.

### PSERS Website

[www.psers.state.pa.us](http://www.psers.state.pa.us)

From the PSERS homepage, click on **Employers** to access all online resources.

## Changes in Account Verification Procedure

PSERS' Account Verification Section (ACV) researches and verifies member's account information for accuracy. From time to time, employers receive phone calls and emails from ACV about discrepancies due to misreporting. As part of PSERS' standard operating procedures, ACV contacts the employer for clarification and approval before making changes to a member's account.

One of the most common and obvious errors is incorrectly identifying the fiscal year for balance of contract money (i.e., money earned in one school year, but paid in the summer months of next school year). Beginning immediately, if the only correction to the member's account is the redistribution of balance of contract money, ACV will now adopt the practice of moving the balance of contract money that was incorrectly reported into one fiscal year to the correct fiscal year without first contacting the employer. ACV will notify the employer via email once the change is made. The adjusted salary and contributions will also be included on your *Employer Statement of Account*.

## **GASB Series – Discount Rate**

There are several assumptions and inputs when calculating the Total Pension Liability (TPL). The discount rate is likely the most significant of these assumptions.

The discount rate used to measure PSERS' total pension liability as of June 30, 2014, was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Should the actuaries determine that the pension plan's fiduciary net position projected to be available was not sufficient to make all projected future benefit payments of current plan members, a yield or index rate for a 20-year, tax exempt general obligation municipal bond would have to be used from the time the projected net position ceases to cover the projected benefit payments, to when the last benefit payment is made. The combination of the 7.50% rate and the 20-year, tax exempt general obligation municipal bond rate would result in a blended rate. This blended rate would likely decrease the PSERS 7.50% rate stated since the 20-year, tax exempt general obligation municipal bond rate is currently estimated to be below 4.00%.

To illustrate the impact that the discount rate has on the Net Pension Liability (NPL) calculation, GASB 67 requires a "Sensitivity of the Net Pension Liability" note disclosure. This note disclosure illustrates the impact of decreasing or increasing the discount rate by 1.00%. For the year ended June 30, 2014, a 1.00% decrease in the discount rate to 6.50% resulted in a \$9.8 billion dollar increase in the NPL, whereas a 1.00% increase in the discount rate to 8.50% resulted in a \$8.4 billion decrease in the NPL.

## **Premium Assistance** (continued from page 2)

### **Pre-tax Premium Payments**

Premium Assistance cannot be used to reimburse retirees for pre-tax premium payments. While pre-tax premium payments are not generally available to retirees, it can happen if the retiree is covered as a spouse/dependent of an active employee and that employee has his or her salary "reduced" to pay premiums. When this happens, PSERS cannot pay Premium Assistance to a retiree whose health insurance premium is paid using non-taxed dollars.

### **Terminating School Sponsored Plan Coverage**

If the members are receiving Premium Assistance for their participation in your school employer plan and that coverage terminates, they must enroll in HOP in order to continue receiving Premium Assistance. If they do not enroll in HOP when their school employer coverage ends, retirees must notify PSERS by contacting the Premium Assistance Unit at 1.866.483.5509 to stop receiving Premium Assistance prior to the end of the month in which their coverage is going to end. If PSERS is not notified, a debt will occur and the retirees will be billed for any overpayments made after the employer coverage ended. While PSERS accepts cancellation notifications from the Commonwealth school employer, members have the responsibility to notify PSERS when they are no longer enrolled in a plan approved for Premium Assistance.

## Reporting Coaches – Is reporting coaches’ information your kryptonite?

Superman only had one weakness and that was kryptonite. Based on information from our Purchase of Service section staff and conversations between you and the Employer Service Center staff, it seems that reporting coaches may be your kryptonite. This article is intended to remove the weaknesses you feel when determining how to report coaches to PSERS.

**First**, you need to determine if a coach is full time or part time. The definition of full-time and part-time employment is outlined in “Chapter 2: Membership – Mandatory, Optional, and Prohibited” in the *Employers’ Reference Manual*. Unless the coach is employed for more than one sport season, the employee is usually considered part time. If the employee is part time, then if eligible, the employee may wish to waive PSERS membership. The eligibility requirements for a school employee to waive PSERS membership is also defined in Chapter 2 of the *Employers’ Reference Manual*.

**Secondly**, you need to determine the coach’s Wage Type. As you know, there are three different Wage Types: Salaried, Per Diem, and Hourly.

- Salaried – If you are paying the coach a lump sum for the season regardless of the hours spent coaching the students, then the employee should be reported with a Wage Type of Salaried.
- Per Diem – If you are paying the coach on a daily basis or a pro-rated daily rate, then the employee should be reported with the Wage Type of Per Diem.
- Hourly – If you are paying the coach on an hourly basis, then the employee should be reported with the Wage Type of Hourly.

You will need to submit a Contract Record with the above information as well as the Job Title, the Work Status, the Start Date, the Expected Months equal to 10, the Expected Units equal to either 180 days or 1100 hours based on the Wage Type. When defining the Job Title, be as specific as possible such as Football Coach or Volleyball and Track Coach. If you want, you may use the sport season to define the coach’s role. Please use more than ‘Coach.’ Define the season such as: Fall Coach, Winter Coach, Spring Coach, Multi-sport Coach, Trainer Coach, etc.

**Thirdly**, you need to know how to report the wages the coach earns:

- If the coach only has one position, then the wages/salary should be reported in the Base field.
- If the coaching position is a secondary position and you have submitted the Contract Record for the coach’s position as well as the regular position, then the wages/salary should be reported in the Base field.
- If the coaching position is a secondary position and you do not have multiple Contract Records submitted to PSERS for the coaching position, then the wages/salary should be reported in the SUP field.

*Note: If the coach was hired as a part-time per diem or hourly employee, you may, if desired, report the employee’s wages in the WNC field **until the school employee qualifies for PSERS membership.***

The Member Contributions should be reported based on the school employee’s salary/wages multiplied by the Member Contribution Rate in effect for the fiscal year the employee earned the money.

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## Reporting Coaches (continued from page 5)

**Lastly**, you need to report service units (i.e., days or hours). See “Chapter 9: Reporting – Service Time” for more details about calculating service units:

- If the employee has a Wage Type of Salaried or Per Diem, then you must report service units in Days.
- If the employee has a Wage Type of Hourly, then you must report service units in Hours.

It seems that determining the correct service units may also be a stumbling block:

- If the employee is paid by the hour, report the number of hours based on the actual hours worked.
- If the employee is paid by the day or prorated day, then report the number of days based on the actual days worked.
- If the employee is paid a salary, it might be more difficult to determine the days the coach worked. Use the information outlined in “Chapter 9: Reporting – Service Time” in the *Employer’s Reference Manual*. If you cannot calculate the service, you can use the information we outline below based on the PIAA season the coach worked:

1. Fall Season: Runs the beginning of the second week in August through the end of the second week in November:
  - PSERS will assume the coach works two (2) hours per day for six (6) days per week.
  - There are 14 weeks in the Fall Season.
  - Service Units to be reported as 34 days.
2. Winter Season: Runs the beginning of the third week in November through the end of the second week in March.
  - PSERS will assume the coach works two (2) hours per day for six (6) days per week.
  - There are 17 weeks in the Winter Season.
  - Service Units to be reported as 41 days.
3. Spring Season: Runs the beginning of the first week in March through the end of the second week in June.
  - PSERS will assume the coach works two (2) hours per day for six (6) days per week.
  - There are 16 weeks in the Spring Season.
  - Service Units to be reported as 38 days.

**Note:** *The coach does not receive service for off-season work. The service performed during the off-season is considered volunteer service time.*

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## Reporting Coaches (continued from page 6)

### Bottom line Summary:

1. Create the School Employee's Member Demographic Record.
2. Create the Contract Record:
  - Employment Type = Full or Part Time.
  - Wage Type = Salaried, Hourly, or Per Diem.
  - Job Title = Be specific, don't just provide the title "Coach."
  - Work Status = Active (unless the school employee waives PSERS membership, then the Work Status should be ACTIVW).
  - Start Date = First day of work.
  - Expected Months = 10.
  - Expected Units = 180 (Salaried / Per Diem) or 1100 (Hourly) based on the Wage Type.
3. Report Wages earned, unless the school employee waives PSERS membership:
  - If the employee is salaried, you must deduct retirement contributions from the first day of employment.
  - If the employee is per diem or hourly, you may begin deducting retirement contributions from the first day of employment or you must begin deducting retirement contributions when PSERS notifies you the member has qualified for PSERS membership.
4. Calculate Days / Hours worked (based on the Wage Type).
5. Report Days / Hours worked, unless the school employee waives PSERS membership.

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**Important Information from the  
Commonwealth of Pennsylvania  
Public School Employees' Retirement System**