

DEFINED BENEFIT HYBRID RETIREMENT PLAN

NDPERS is a Defined Benefit Hybrid Retirement plan that pays vested members a retirement benefit, which is generally based on compensation, benefit multiplier, and years of retirement service credit. A vested member will receive the benefit determined under the plan regardless of the performance of the plan's investments.

Minimum Participation Requirements

To be eligible to participate, an employee must work a minimum of 20 hours per week for 20 or more weeks of the year, is at least eighteen years of age, and filling a permanent position that is regularly funded and not of limited duration.

- ▶ Eligible employees employed at the time the employer joins may waive participation
 - Must sign a waiver of participation
 - May not have their pay increased as a result of that waiver
 - May join at a later date
- ▶ All eligible employees hired after the employer joins must participate
 - Must be enrolled the first month of eligible employment, even when hired subject to a probationary period. There is no maximum age limit applicable for enrollment purposes.

Participation Requirements for Other [Non-State] Elected Officials

Elected officials of participating counties may at their individual option, enroll or waive participation in the defined benefit plan. If they do not enroll with the group, they may enroll or waive participation within the first six (6) months of their new term. All other elected officials must meet the above mandatory participation requirements to be eligible.

Participation Requirements for Other [Non-State] Appointed Officials

Appointed officials appointed on or after August 1, 1999, and must meet the above mandatory participation requirements, and must be enrolled in the defined benefit plan effective with the first month of taking office. Appointed officials employed at the time the employer joins may enroll or waive participation.

Optional Participation Requirements

If you have any employee who is at least eighteen years old, and does not meet the mandatory participation requirements, they may elect to participate in NDPERS within the first 180 days of employment, or within 180 days of changing from permanent to temporary/part-time employment. Retirement participation is at their expense. They may not participate in NDPERS if actively contributing to another employer-sponsored plan. This applies to both private and public pension funds.

Employees employed at the time the employer joins may enroll or waive participation.

The law expressly prohibits the employer from paying any portion of an optional participant's contribution.

Contributions

Employee Contribution: 4.00% of salary
Employer Contribution: 4.12% of covered payroll

Eligible Wages and Salaries

"Wages" and "salaries" means the member's earnings in eligible employment under the N.D.C.C. Chapter 54-52 reported as salary on the member's federal income tax withholding statements plus any salary reduction or salary deferral amounts under 26 U.S.C. 125, 401(k), 49403(b), 414(h), or 457. "Salary" does not include fringe benefits such as payments for unused sick leave, personal leave, vacation leave paid in a lump sum, overtime, housing allowances, transportation expenses, early retirement incentive pay, severance pay, medical insurance, workforce safety and insurance benefits, disability insurance premiums or benefits, or salary received by a member in lieu of previously employer-provided fringe benefits under an agreement between the member and participating employer. Bonuses may be considered as salary under this section if reported and annualized pursuant to rules adopted by the board.

Vesting

To be vested in the Defined Benefit Hybrid Plan means that you have become legally entitled to a monthly benefit when you terminate employment and reach retirement age or qualify for long-term disability.

Vesting in Disability Benefit: 180 days

Vesting in Retirement Benefit: 36 months

Portability Enhancement Provision (PEP)

Vesting in the Employer Contribution:

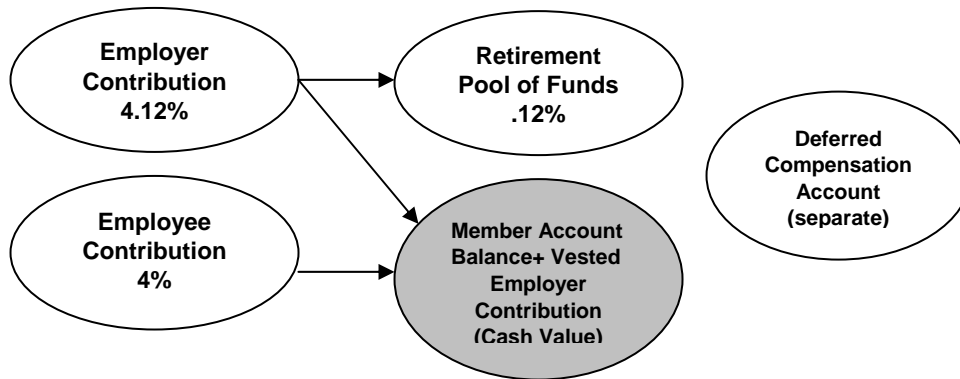
Active members in the Defined Benefit Hybrid Plan, you are able to vest in the employer contribution for cash distribution purposes by participating in a deferred compensation (457) program, 403(b) or other qualified retirement savings program approved by the NDPERS Board. The vesting schedule for the PEP contributions is based upon your existing service credit in the retirement program and the amount you defer into a qualified deferred compensation plan. See the following schedule for details:

Retirement Service Credit	Minimum Vesting Contribution	Maximum Vesting Contribution
0 – 12 months	\$25	1% of gross salary
13 – 24 months	\$25	2% of gross salary
25 – 36 months	\$25	3% of gross salary
37 + months	\$25	4% of gross salary

How PEP works

It allows you the option to vest in the 4.12% employer contribution paid into the retirement pool of

funds and have this vesting percentage credited to your member account. For every dollar you put in a Deferred Compensation plan, NDPERS will add one dollar to your member account balance, subject to a vesting schedule. This can significantly increase the amount of money available if you choose to “cash in” your retirement account, or roll it over into another pension plan, if your North Dakota public service ends. PEP reallocates the employer contributions into your member account balance as shown below. As you can see, 4.00% of the 4.12% of the employer contribution is paid into the member account rather than the retirement pool of funds as shown in the model.



BENEFITS AT TERMINATION OF EMPLOYMENT

Member Account Balance: Refund/Rollover of your member account balance, which consists of the monthly employee contributions, the vested portion of the employer contributions, and interest. This interest is compounded monthly up to the time you receive a refund/rollover of your account or begin receiving a monthly benefit. The interest paid on your account is based on a rate established by the NDPERS Board and builds on a tax deferred basis. You may also leave your money at NDPERS to receive a distribution at a later date.

Disability Retirement Benefits: If you are deemed eligible for disability benefits, you will receive 25% of your final average salary each month for as long as you are disabled under the basic disability payment option. The minimum benefit is \$100 per month.

Surviving Spouse Benefits: If you die after completing 36 months of credited service, your spouse may elect to receive:

- (a) Refund/Rollover of your account; or
- (b) 50% of your unreduced retirement benefit for life; or
- (c) Equivalent of 100% joint & survivor option if you had reached your normal retirement date.

BENEFITS AT RETIREMENT:

Early Retirement Age: 55

Normal Retirement Age: 65

Rule of 85: Age + Years of Service = 85 or more
No reduction in benefits for early retirement; there is no minimum age requirement.

Retirement Formula: Final Average Salary X 2.00% X Years of Credited Service

Final Average Salary = Average of Highest 36 salaries of the last 120 months you worked.

Benefit Multiplier = The rate established by the legislature at which you earn benefits.

Retirement Options: Single Life
Joint & Survivor 50% & 100%
Term Certain 20 & 10 Year
Social Security Level Income
Partial Lump Sum Option

Individuals who are eligible for a monthly pension benefit also have the right to participate in the NDPERS group health, dental, vision, and long-term care insurance after retirement. If he/she elects to participate the NDPERS group health insurance, he/she will receive the additional benefit of a tax-free retiree health insurance credit towards his/her health insurance. See [Retiree Health Insurance Credit Section](#).

NDPERS ONLINE SERVICES

Members have the ability to access their individual account. They may access the following account information: 1) Retirement Benefit Estimates, 2) Disability Benefit Estimates, 3) Member Account Balance, or 4) Current Annual Statement.

ON-LINE OPTIONS:

Calculate Retirement & Disability Benefits:

This feature allows you to calculate and print your future retirement and disability benefits by using your demographics retrieved from your NDPERS account. This feature allows you to set retirement or disability variables based on your individual needs.

Account Balance:

This allows you to view and print your current member account balance. This also features the taxable and non-taxable portion of your account balance.

Annual Statements:

This allows you to view and print your "Annual Statement of Accounts" for the past two fiscal years.

View Retirement Plan:

This provides a link to your retirement plan handbook.

View Portability Enhancement Provision (PEP) Brochure:

This is an educational piece on the NDPERS PEP Program.

Other On-Line Features:

Most of the on-line services contain pop-ups and links to provide you with direction and explanation of the different components of your benefits.

Other Website Features:

You also have access to plan information on all NDPERS benefits, Perspectives Newsletters, News Flashes, Forms and Publications, and Contact Information.

RETIREE HEALTH INSURANCE CREDIT

Eligibility:

If you elect and receive a retirement allowance from the Defined Benefit Hybrid Plan or the Defined Contribution Plan, you are eligible to receive a credit towards your monthly health insurance premium for the state health plan equal to \$5.00 for each of your years of credited service, subject to early retirement reductions. For example, a member with 20 years of service at normal retirement age would receive a monthly credit of \$100, which is a tax-free benefit. A receiving member is eligible for coverage under the state health plan [Blue Cross Blue Shield Dakota Plan and Dakota Retiree Plan] even if the employer is not participating in the state health plan prior to the member's retirement if the member is enrolled during eligible "qualifying events".

Contributions:

Employer Contribution: 1.14% of covered payroll

Benefit Formula: \$5.00 x Years of Credited Service

BENEFITS AT RETIREMENT:

Retiree Health Credit Options: Single Life
Joint & Survivor 50% & 100%

Foot Note: Summary of Total Retirement Contributions discussed:

TOTAL REQUIRED EMPLOYEE CONTRIBUTION:	4.00%
TOTAL REQUIRED EMPLOYER CONTRIBUTION:	<u>5.26%</u>
TOTAL REQUIRED RETIREMENT CONTRIBUTION:	9.26%

EMPLOYER ENROLLMENT

In the event you wish to enroll in the retirement program, the questionnaire on the next pages needs to be addressed to NDPERS to determine if your agency is an eligible political subdivision.

Upon receipt of the requested questionnaire, NDPERS and its legal council will review and determine if your agency is an eligible political subdivision. You will be contacted regarding your agency's qualification status.

In the event your agency qualifies, a signed board resolution is required prior to NDPERS sending your agency an "Employer Participation Agreement" and enrollment materials.

The board resolution must be stated as follows:

A motion was made by {Insert Board Member Name} for «Agency» to affirm to North Dakota Public Employees Retirement System that «Agency» is formed pursuant to N.D.C.C. § (Insert citation) and is neither a non—profit corporation nor a for-profit corporation, to join the NDPERS Defined Benefit Retirement Plan and offer the plan to all eligible employees of the «Agency». The motion was seconded by {Insert Board Member Name}. The Board approved joining the NDPERS Defined Benefit Retirement Plan effective {Month 1, Year}.

QUESTIONNAIRE

Your Agency Name:

Date:

Retirement Plan

NDPERS cannot provide suggested language for drafting your responses. Please contact your business or legal counsel for assistance.

1. Is the agency created by North Dakota statute or organized pursuant to a North Dakota Statute? If so, please provide citation.
2. What is the purpose of the agency?
3. What is the agency's funding source?
4. Is the agency a non-profit corporation or a for-profit corporation? If a for-profit corporation, please include a copy of the articles of incorporation.

SAMPLE

EMPLOYER PARTICIPATION AGREEMENT IN THE NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT RETIREMENT PLAN

This agreement is entered into pursuant to Section 54-52-02.1 of the North Dakota Century Code by and between «AGENCY», «CITY», North Dakota, as authorized by the resolution hereto attached and the NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM as authorized by the Retirement Board through its chairman and executive director and shall be effective on «EFFECTIVE_DATE».

Whereas, a referendum has been held of the eligible employees of «AGENCY», «CITY», North Dakota, pursuant to Chapter 54-52-02.2 of the North Dakota Century Code, and a majority of such eligible employees have voted in favor of participation in the Retirement System and «AGENCY» has determined that this agreement should be entered into; and

Whereas, the North Dakota Public Employees Retirement Board agrees to extend the benefits of the Public Employees Retirement System to eligible employees of «AGENCY»;

Now, therefore, it is agreed and understood that:

1. All of the provisions of Chapter 54-52 of the North Dakota Century Code and the current or later amended rules of the Retirement Board shall apply with regard to benefits, contributions and administration of the system.
2. The employee contribution rate has been actuarially determined to be 4.00% of "wages" and "salaries" as defined in Section 54-52-01 of the North Dakota Century Code for those eligible employees employed at the date of this agreement and for those eligible employees whose date of employment is after the effective date.
3. The employer contribution rate shall be a percentage of "wages" and "salaries" for all eligible employees as defined in Sections 54-52-01 of the North Dakota Century Code, which specific percentage shall be determined by the Retirement Board. (Ref. NDCC 54-52-06 and 54-52.1-03.2.)
4. Eligible employees who are employed by «AGENCY» at the time this agreement is entered into have the option of not participating in the Public Employees Retirement System. Eligible employees who waive participation in the Public Employees Retirement System may not have their pay increased as a result of that waiver, which determination shall be made by the retirement board in its sole discretion, and any violation of this requirement will constitute a breach of this agreement. Those eligible employees electing to not participate at this time whose employment with «AGENCY» is not interrupted may join the Retirement System at a later date.

Retirement Agreement

«AGENCY»

Page 2

Current eligible employees electing not to join the Retirement System at this time who later elect to join the Retirement System may "purchase" the service credit for the time during which they did not participate by electing to do so in writing.

- 5. All eligible employees hired by «AGENCY» on or after «EFFECTIVE_DATE» , must participate in the Public Employees Retirement System.
- 6. Should «AGENCY» wish to terminate membership with the Public Employees Retirement System, it shall do so only after:
 - (a) Submitting a request in writing to the Retirement Board at least sixty (60) days prior to the requested date of withdrawal; and
 - (b) Complying with Section 54-52-02.1 of the North Dakota Century Code and the Rules of the Retirement Board regarding withdrawal from the system.
- 7. This Agreement may be amended in writing by mutual agreement of both parties.
- 8. If the «AGENCY» fails to perform according to its statutory participation requirements, the NDPERS Board may terminate the «AGENCY»'s enrollment in NDPERS. The termination shall be performed pursuant to the withdrawal procedures outlined in N.D.C.C. ch. 54-52.

Executed at _____, North Dakota, this ____ day of _____, 200_.

«AGENCY»

By _____ XXXXXXXX _____

By _____ XXXXXXXXX _____

Executed at Bismarck, North Dakota, this ____ day of _____, 200_.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT BOARD

By _____
Executive Director

SAMPLE INDEMNITY ADDENDUM

This agreement is made and entered into this ____ day of _____, _____, by and between the North Dakota Public Employees Retirement System (PERS) and _____ (Employer). This agreement is an addendum to the _____ executed on the ____ day of _____, _____.

- I. Purpose. The purpose of this agreement is to provide a separate writing pursuant to N.D.C.C. § 32-12.2-13 evidencing the parties' intent that Employer indemnify and save and hold harmless PERS as provided in section II of this agreement. This agreement does not change the rights and responsibilities set out in the Participating Employer Agreement other than as specifically provided in this agreement.
- II. Employer Responsibilities. Employer agrees to indemnify and save and hold harmless PERS for any loss, damage, claim, or expense, including reasonable attorney fees, arising in connection with any actions taken or omitted by the Employer pursuant to the Participating Employer Agreement to which this agreement is an addendum.
- III. PERS Responsibilities. PERS will allow Employer to participate in the relevant program as provided in the Participating Employer Agreement to which this agreement is an addendum.

IN WITNESS WHEREOF, the undersigned have executed the Agreement this ____ day of _____, _____.

Employer:

PERS:

_____ XXXXXXXXX		_____	
Signature	Date	Sparb Collins Executive Director, PERS	Date

Name (printed)

Title

SAMPLE

PORTABILITY ENHANCEMENT PROVISION (PEP) AGREEMENT FOR PARTICIPATING EMPLOYERS OFFERING A SUPPLEMENTAL DEFERRED COMPENSATION PROGRAM

This agreement is made and entered into this _____ day of _____, _____, by and between the North Dakota Public Employees Retirement System (PERS) and _____
_____(Employer).

- I. Purpose. The purpose of this agreement is to document specific areas of responsibility with respect to the Employer's participation in the vesting of employer contributions allowed by N.D.C.C. § 54-52-11.1. The parties understand the Employer is not required to offer this additional opportunity to its employees. The vesting of employer contributions allowed by N.D.C.C. § 54-52-11.1 is only available for employees making voluntary salary reduction contributions to the Employer's eligible §457(b) deferred compensation plan or elective deferrals to the Employer's tax-qualified §403(b) tax-sheltered annuity program. The vesting provision under N.D.C.C. § 54-52-11.1 is not available for Employer elective or nonelective contributions, or employee after-tax contributions. The Employer hereby certifies it is currently offering its employees the following supplemental deferred compensation program: (initial all that apply)

_____an eligible §457(b) deferred compensation plan
_____a tax-qualified §403(b) tax-sheltered annuity program

- II. Employer Responsibilities. The Employer agrees to:
- A. Offer the option to participate in the vesting of employer contributions allowed by N.D.C.C. § 54-52-11.1 to all of its employees who are eligible to participate in both the PERS retirement program and the Employer's supplemental Internal Revenue Code section 457 or 403(b) deferred compensation program.
 - B. Notify PERS monthly, utilizing the Deferred Compensation Deduction Transmittal Form, of the name and social security number of any and all employees participating in the Employer's supplemental Internal Revenue Code section 457 or 403(b) deferred compensation program, as well as the amount the employee is contributing on a monthly basis to the supplemental deferred compensation program, and whether an employee ceases participation in the Employer's supplemental deferred compensation program.
 - C. Immediately notify PERS if the Employer discontinues its supplemental Internal Revenue Code section 457 or 403(b) deferred compensation program.
 - D. To the extent required by law for its program, be the fiduciary for its supplemental deferred compensation program, including, but not limited to, educating its employees regarding the program and ensuring compliance with applicable Internal Revenue Code provisions.
 - E. Allow PERS to periodically audit the Employer for purposes of ensuring compliance with this agreement.

III. PERS Responsibilities.

- A. PERS will credit vested employer contributions to the participating member's account balance on a monthly basis as required by N.D.C.C. § 54-52-11.1.

IV. General Terms and Conditions.

- A. Amendment. This agreement may be amended by written agreement between PERS and the Employer.
- B. Period. This agreement will be in effect as long as the Employer participates in the PERS retirement program and offers an eligible supplemental Internal Revenue Code section 457 or 403(b) deferred

compensation program. If the Employer discontinues its supplemental deferred compensation program or ceases participation in the PERS retirement program, this agreement shall immediately terminate and the Employer's employees shall no longer be eligible for vesting in Employer contributions pursuant to N.D.C.C. § 54-52-11.1 for contributions made after the termination of this agreement. The Employer specifically acknowledges that participation in the PERS retirement program and offering an eligible supplemental Internal Revenue Code section 457 or 403(b) deferred compensation program are required to take advantage of the employer contribution vesting pursuant to N.D.C.C. § 54-52-11.1. Either the Employer or PERS may terminate this agreement with 60 days written notice for any reason.

- C. Delay. Neither party shall be liable for any delay in or failure of performance under this Agreement due to an act of God or due to war mobilizations, insurrections, rebellion, civil commotion, riot, act of extremist or public enemy, sabotage, labor dispute, explosion, fire, flood, storm, accident, drought, equipment failure, power failure, fuel or energy shortages, unavoidable delay of carriers, embargo, law, ordinance, act, rule or regulations of any government, whether valid or invalid.
- D. Assignment and Delegation. The Employer may not assign or otherwise transfer or delegate any right or duty without the express written consent of PERS.
- E. Applicable Law. This agreement is governed by the laws of the State of North Dakota.
- F. Vendor. The Employer is currently using the services of the following vendor, and will immediately notify PERS if the Employer changes vendor:

Vendor name: _____
Vendor contact: _____
Vendor address: _____

- G. Notices. Whenever notices and correspondence are required or permitted to be given under this Agreement, such notice shall be given by personal delivery to the other party or may be sent by first class mail, postage prepaid, to the other party at the following addresses:

To PERS: North Dakota Public Employees Retirement System
400 East Broadway, Suite 505
P.O. Box 1657
Bismarck, ND 58502-1657
(701) 328-3900

To Employer: _____

IN WITNESS WHEREOF, the undersigned have executed the Agreement this ____ day of _____, _____.

Employer:

PERS:

Signature Date

Sparb Collins Date
Executive Director, PERS

Name (printed)

Title

EMPLOYER PAYMENT PLAN SFN 52799 (06-2003)

General Information

State law requires that employee contributions be paid on an after-tax basis unless the employer elects to pay the employee contributions on a tax deferred basis. Section 414(h)(2) of the Internal Revenue Code (IRC) and subsection 3 of section 54-52-05 of the North Dakota Century Code allow for employee contributions to a qualified retirement plan, such as NDPERS, to be made on a tax deferred basis. Tax deferred means that the contributions are not taxed as income to the employee at the time they are made, rather they are taxed at the time the employee receives a distribution from the retirement plan. Presently, the State of North Dakota is paying the 4% employee contribution for state employees on a tax-deferred basis, in lieu of a salary increase (Model 2).

The IRC states that in order to pay employee contributions on a tax deferred basis, the contributions must be "picked-up" by the employer and treated as employer contributions. Employee contributions are considered to be "employer" contributions, and thus tax deferred, in the following instances:

Model 1: Salary reduction - The employee contribution is deducted from the employee's gross wage before income tax is calculated.

Model 2: Offset against future salary increase - The employer pays the employee contribution in lieu of granting the employee a salary increase.

Model 3: Combination of Models 1 and 2.

Any specific questions concerning the tax status or Social Security status of member assessments should be directed to the IRS or Social Security Administration (SSA) since any penalties levied by those agencies for improper reporting are the liability of the employer, not NDPERS.

Requirements

Employer payment of employee contributions is allowed under the following conditions:

1. Employer must specify the Model they are following by completing the Employer Payment Plan (SFN 52799). If a model is not elected, the employer will withhold and remit employee contributions after taxes have been withheld (Basic Model).
2. The employee must not have the option of choosing to receive the contributed amounts directly instead of having them paid by the employer to the retirement plan. **EMPLOYEES MAY NOT BE PROVIDED INDIVIDUAL ELECTIONS TO OPT IN OR OUT OF THE TAX DEFERRED ARRANGEMENT. THIS IS SOLELY AN EMPLOYER ELECTION FOR ALL PARTICIPATING EMPLOYEES.**
3. The employer must treat all employees covered under NDPERS equally.
4. The employer shall pay the employee contributions from the same source of funds used in paying compensation to the employee.
5. Employer must report employee contributions paid on a tax-deferred basis on the NDPERS Transmittal of Deduction form as outlined in the Models.

Effective Date

Initial Election: The initial election to tax defer contributions will be effective in the month adopted by the employer, however, the effective date can not be earlier than the month the election form is received by NDPERS.

Changes to Election: A change to increase or decrease the percentage of contributions being tax deferred may be made anytime and will become effective in the month adopted by the employer; however, the effective date can not be earlier than the month the election is received by NDPERS.

BASIC MODEL

EMPLOYER WITHHOLDS AND REMITS TAXED MEMBER CONTRIBUTIONS

Under the Basic Model, employee contributions are paid on an after-tax basis. This means the employee contributions are taxable to the employee in the year the contributions are made. When preparing payroll, the employee contributions are withheld from the employee's salary; however, the amount of the contributions **does not** reduce the employee's salary when calculating federal and state income tax withholding. It also **does not** reduce the salary amount reported on the W-2 tax form.

When reporting contributions on the NDPERS transmittal of deduction (SFN 51414), the employer retirement contribution of 4.12% and the retiree health insurance credit contribution of 1.14% are reported on Line (3) "Employer Portion Paid By Employer." The 4.0% employee contribution is reported on Line (1) "Employee Portion Paid by Employee (After-Taxes)".

EXAMPLE

Base Salary	\$20,000
Salary Increase	<u>0</u>
<u>SALARY FOR RETIREMENT PURPOSES</u>	<u>\$20,000</u>
Employee Contribution Due (\$20,000 x 4.0%)	\$ 800
Employer Contribution Due (\$20,000 x 5.26%)	\$ 1,024
Taxable Salary Reported to IRS- subject to income tax withholding (Report in Box 1 of W-2 Form)	\$20,000
Taxable Salary Reported to SSA- subject to social security and Medicare withholding (Report in Box 3 and Box 5 of W-2 Form)	\$20,000

☞ For all employees participating in the PERS Retirement Plan, mark "Pension Plan" in Box 13 of W-2 Form.

MODEL 1

EMPLOYER WITHHOLDS AND REMITS ALL OR A PORTION OF THE MEMBER CONTRIBUTIONS UNDER A SALARY REDUCTION AGREEMENT

This means the employee contributions are tax deferred until the employee withdraws them from the retirement plan. When preparing payroll, the employee contributions are withheld from the employee's salary, and the amount of the contribution is subtracted from the employee's salary when calculating federal and state income tax withholding. The salary amount reported on the W-2 form is also reduced by the amount of the employee contributions. This model outlines how an employer should report salaries and contributions when an employee's contributions are being made on a tax deferred basis under a salary reduction agreement. Any portion of the employee's contribution can be tax deferred. The examples below show partial and total payment of contributions under a salary reduction agreement. When reporting contributions on the NDPERS transmittal of deduction (SFN 51414), the employer retirement contribution of 4.12% and the retiree health insurance credit contribution of 1.14% are reported on Line (3) "Employer Portion Paid By Employer." The reporting of the 4.0% employee contribution will depend on whether or not the contribution is being made on a tax-deferred basis.

EXAMPLE 1 – EMPLOYER DEDUCTS ONE-HALF OF THE EMPLOYEE CONTRIBUTION THROUGH A SALARY REDUCTION AGREEMENT

Base Salary	\$20,000
<u>SALARY FOR RETIREMENT PURPOSES</u>	<u>\$20,000</u>
Employee Contribution Due (\$20,000 x 4.0%)	\$ 800
Employer Contribution Due (\$20,000 x 5.26%)	\$ 1,024
Employee Contribution Tax Deferred Through A Salary Reduction Agreement (Report on SFN 51414, Line (2) "Employee Portion Paid by Employer – Tax Deferred")	\$ 400
Employee Contribution Paid By Employee (Report on SFN 51414, Line (1) "Employee Portion Paid by Employee – After Taxes")	\$ 400

Taxable Salary Reported to IRS-
subject to income tax withholding
(Report in Box 1 of W-2 Form) \$19,600 (\$20,000 - \$400)

Taxable Salary Reported to SSA-
subject to social security and
Medicare withholding \$20,000
(Report in Box 3 and Box 5 of W-2 Form)

☞ For all employees participating in the PERS Retirement Plan, mark "Pension Plan" in Box 13 of W-2 Form.

EXAMPLE 2 – EMPLOYER AGREES TO DEDUCT ALL EMPLOYEE CONTRIBUTIONS THROUGH A SALARY REDUCTION AGREEMENT.

Base Salary \$20,000

SALARY FOR RETIREMENT PURPOSES \$20,000

Employee Contribution Due \$ 800
($\$20,000 \times 4.0\%$)

Employer Contribution Due \$ 1,024
($\$20,800 \times 5.26\%$)

Employee Contribution
Tax Deferred Through A
Salary Reduction Agreement \$ 800
(Report on SFN 51414, Line (2) "Employee Portion
Paid by Employer – Tax Deferred")

Taxable Salary Reported to IRS-
subject to income tax withholding
(Report in Box 1 of W-2 Form) \$19,200 (\$20,000 - \$800)

Salary Reported to SSA-
subject to social security and
Medicare withholding \$20,000
(Report in Box 3 and Box 5 of W-2 Form)

☞ For all employees participating in the PERS Retirement Plan, mark "Pension Plan" in Box 13 of W-2 Form.

MODEL 2

EMPLOYER PAYS ALL OR A PORTION OF THE MEMBER CONTRIBUTIONS IN LIEU OF A SALARY INCREASE

This means the employee contributions are tax deferred until the employee withdraws them from the retirement plan. The employer pays the employee contributions, so when preparing payroll, the contributions are not withheld from the employee's salary and they do not affect the employee's salary when calculating federal and state income tax withholding. The contributions also do not affect the salary amount reported on the W-2 form. This model outlines how an employer should report salaries and contributions when an employer pays the employee contributions in lieu of a salary increase. The employer can pay any portion of the employee contribution. The examples below show partial and total payment of contributions in lieu of a salary increase. When reporting contributions on the NDPERS transmittal of deduction (SFN 51414), the employer retirement contribution of 4.12% and the retiree health insurance contribution of 1.14% are reported on Line (3) "Employer Portion Paid By Employer." The reporting of the 4.0% employee contribution will depend on whether or not the contribution is being made on a tax-deferred basis.

EXAMPLE 1 - EMPLOYER AGREES TO PAY ONE-HALF OF THE EMPLOYEE CONTRIBUTIONS IN LIEU OF A SALARY INCREASE

Base Salary	\$20,000
Salary Increase	<u>0</u>
<u>SALARY FOR RETIREMENT PURPOSES</u>	<u>\$20,000</u>
Employee Contribution Due (\$20,000 x 4.0%)	\$ 800
Employer Contribution Due (\$20,000 x 5.26%)	\$ 1,024
Employee Contribution Paid by Employer in Lieu of Salary Increase (Report on SFN 51414, Line (2) "Employee Portion Paid by Employer – Tax- Deferred")	\$ 400
Employee Contribution Paid by Employee (Report on SFN 51414, Line (1) "Employee Portion Paid by Employee – After Taxes")	\$ 400
Taxable Salary Reported to IRS- subject to income tax withholding	\$20,000

(Report in Box 1 of W-2 Form)

Taxable Salary Reported to SSA- subject to social security and Medicare withholding (Report in Box 3 and Box 5 of W-2 Form)	\$20,000
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☞ For all employees participating in the PERS Retirement Plan, mark "Pension Plan" in Box 13 of W-2 Form.

EXAMPLE 2 - EMPLOYER AGREES TO PAY ALL EMPLOYEE CONTRIBUTIONS IN LIEU OF A SALARY INCREASE

Base Salary	\$20,000
Salary Increase	<u>0</u>

<u>SALARY FOR RETIREMENT PURPOSES</u>	<u>\$20,000</u>
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Employee Contribution Due (\$20,000 x 4.0%)	\$ 800
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Employer Contribution Due (\$20,000 x 5.26%)	\$ 1,024
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Employee Contributions Paid by Employer in Lieu of Salary Increase (Report on SFN 51414, Line (2) "Employee Portion Paid by Employer – Tax Deferred")	\$ 800
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Taxable Salary Reported to IRS- subject to income tax withholding (Report in Box 1 of W-2 Form)	\$20,000
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Taxable Salary Reported to SSA- subject to social security and Medicare withholding (Report in Box 3 and Box 5 of W-2 Form)	\$20,000
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☞ For all employees participating in the PERS Retirement Plan, mark "Pension Plan" in Box 13 of W-2 Form.

MODEL 3

EMPLOYER WITHHOLDS AND REMITS A PORTION OF THE MEMBER CONTRIBUTIONS UNDER A SALARY REDUCTION AGREEMENT AND PAYS A PORTION OF THE MEMBER CONTRIBUTIONS IN LIEU OF A SALARY INCREASE

This model outlines how an employer should report salaries and contributions when a combination of a salary reduction agreement and an offset against a future salary increase is used. When reporting contributions on the NDPERS transmittal of deduction (SFN 51414), the employer retirement contribution of 4.12% and the retiree health insurance contribution of 1.14% are reported on Line (3) "Employer Portion Paid by Employer." The reporting of the 4.0% employee contribution depends on whether or not the contribution is being made on a tax- deferred basis.

EMPLOYER AGREES TO PAY THREE PERCENT OF THE EMPLOYEE CONTRIBUTIONS IN LIEU OF A SALARY INCREASE, AND ONE PERCENT OF THE EMPLOYEE CONTRIBUTION IS DEDUCTED UNDER A SALARY REDUCTION AGREEMENT

Base Salary	\$20,000
Salary Increase	<u>0</u>

<u>SALARY FOR RETIREMENT PURPOSES</u>	<u>\$20,000</u>
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Employee Contributions Due (\$20,000 x 4.0%)	\$ 800
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Employer Contributions Due (\$20,000 x 5.26%)	\$ 1,024
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Employee Contributions Paid by Employer in Lieu of Salary Increase (\$20,000 x 3.0%) (Report on SFN 51414, Line (2) "Employee Portion Paid by Employer – Tax Deferred")	\$ 600
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Employee Contributions Tax deferred through a Salary Reduction Agreement (\$20,000 x 1.0%) (Report on SFN 51414, Line (2) "Employee Portion Paid by Employer – Tax Deferred")	\$ 200
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Taxable Salary Reported to IRS- subject to income tax withholding (Report in Box 1 of W-2 Form)	\$19,800	(\$20,000 - \$200)
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Taxable Salary Reported to SSA- subject to social security and Medicare withholding (Report in Box 3 and Box 5 of W-2 Form)	\$20,000
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☞ For all employees participating in the PERS Retirement Plan, mark "Pension Plan" in Box 13 of W-2 Form.