



# NEWS TO USE

A newsletter for PERSI employers

April 2009

- Compensation Limits
- Clarifying Disability
- Notes

## MAXIMUM ANNUAL COMPENSATION

When employers began contacting PERSI about "maximum contributions" to the Base Plan for 2009, we were a bit confused. At first we thought these employers wanted to know about contribution rates, so we explained the current rate of 10.39 percent would not be changing in 2009.\* Soon it became apparent they were not referring to contribution rates. What a puzzlement! Then Employer Service Center manager Diane Kaiser had an "AH-HA" moment. Could the questions actually be about maximum annual compensation? Sure enough, some employers were saying maximum contributions, but meaning maximum compensation, so this brief article will shed some light on this subject.

### Maximum Annual Limits on Benefits & Compensation

Maximum annual compensation is a limit set by the Internal Revenue Service (IRS) on the benefit amount a member of a retirement system can receive from their defined benefit plan in any given calendar year. In other words, it limits the amount a PERSI member can receive from their Base Plan during a calendar year. The IRS also sets a limit on the maximum compensation amount that can be used for calculating contributions and average monthly salary. (*This does not pertain to the Choice 401(k) Plan limits.*)

The annual compensation limit does not apply to members who joined PERSI prior to July 1, 1996. For those who became members after July 1, 1996, the annual compensation (salary) limit for 2009 is set at \$245,000. This represents the maximum amount PERSI can use to calculate the member's average monthly salary.

If a member earns more than the maximum annual compensation limit, they **do not pay** contributions on any amount above the limit. And, PERSI **cannot** use any salary that exceeds the \$245,000 limit to calculate the member's average monthly salary.

Throughout the year, PERSI's computer system automatically searches the database in an attempt to identify members who are approaching the maximum annual compensation limit and then alerts the appropriate fiscal technician when someone is found. Ultimately, however, it is the responsibility of employers to monitor the limits for their employees. So PERSI urges employers to be mindful of these limits as the year progresses so contributions will not be taken from any employees who exceed the \$245,000 limit.

The formula below shows the maximum amount a member who reaches the \$245,000 maximum compensation limit can contribute to the Base Plan in 2009:

$$\begin{array}{l} \text{Maximum Annual Compensation} \\ \times \text{Member Contribution Rate} \end{array}$$

$$\begin{array}{l} \text{Maximum PERSI contributions during calendar year.} \\ (\$245,000 \times 6.23\% = \$15,263.50) \end{array}$$

### Maximum Annual Member Benefit

The maximum annual benefit a member can receive from a defined benefit plan (Base Plan) for 2009 is \$195,000, an amount also set by the IRS.

### Questions?

More detailed information on this topic can be found by reading IRS Code Section 401 (a) (17) or Statute 59-1302 (31) (B) of Idaho Code. If you have questions about maximum annual compensation or maximum annual benefit, the Employer Service Center is available to answer questions by calling toll-free at 1-866-887-9525 or 208-287-9525 from the Treasure Valley area.

\* A rate increase may be discussed by the Retirement Board later this year.

# CLARIFY DISABILITY BENEFITS FOR YOUR EMPLOYEES

Members rely on PERSI and their employers to provide them with information about their disability benefits. PERSI does what it can to keep members informed through newsletters, the handbook, and a brochure, but also relies on employers to help convey accurate information to their employees about this benefit. Since it's been nearly 3 years since the last disability article in the *News To Use*, it's time for a reminder.

## Disability Definition

For PERSI purposes, disability is considered to be a total and permanent physical or mental impairment that prevents someone from earning a livelihood. This means a member who is considered disabled cannot perform any work for compensation.

## Eligibility Requirements

- The member must be totally and permanently disabled as a result of a physical or mental disease or injury while an active member; and
- The disability must result in substantially all avenues of employment being reasonably closed; and
- The member **MUST** file a disability application **no later than 1 year** after they cease to be an active member; and
- The member must have 5 years of credited service.

(A member may be eligible from the first day on the job if the disability is a result of work-related causes.)

## Time Limitations

The biggest stumbling block for most members is remembering the time limit for filing an application. On July 1, 2006, a law went into effect setting a time limit for members to file for disability benefits. Members applying for disability have **one year** from the date of their last contribution to file a disability application. PERSI interprets this to be the day the member ceases to be an active member, which is when they are no longer eligible to accrue service and make contributions.

Members who believe they are eligible don't need to wait until other benefits, such as workers compensation, end to apply. Employers should remind employees who file for disability that applying only initiates the process, it does not guarantee approval.

Please help PERSI keep your employees informed about this valuable benefit. The disability brochure can be downloaded from the PERSI Web site at [www.persi.idaho.gov](http://www.persi.idaho.gov). Thank you for teaming with PERSI to keep your employees informed.

## Notes

PERSI Answer Center Manager [Judy Aitken](#) addressed nearly 100 attendees of the School District HR Conference in Boise earlier this year. Topics included PERSI's actuarial funding status and the probability of increased contribution rates in 2011, the possibility of legislation exempting substitute teachers from PERSI, current return to work legislation for retired school teachers, eligibility issues, and PERSI's new program to automate the unused sick leave insurance premium program.

[Ray Polzin](#) left the private sector to become PERSI's IT manager. He brings 30 years of experience to this role. He has a bachelor's degree in business administration from Idaho State University.

Also joining PERSI as an insurance specialist in the PERSI Processing Center is [Wayne Ellis](#). He brings 8 years of private sector experience as a financial consultant and bank manager to PERSI. He holds a bachelor's degree in finance from Idaho State University and an MBA from University of Phoenix.

[Mike Young](#) has joined PERSI as a senior accountant in the fiscal department. He holds a bachelor's degree in accounting from the University of New Orleans. He brings 20 years of experience in the private sector to his new role with PERSI.