PERS NEWS

ACTIVE MEMBERS

A PUBLICATION OF THE PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA •

PASSAGE OF LEGISLATIVE BILL RESULTS IN IMPORTANT CHANGES

In the recently-adjourned regular session of the Louisiana Legislature, one bill important to Parochial and sponsored by Senator Lambert Bossiere was passed as Act 695. Changes provided for in this legislation will take effect January 1, 2002. Thus, it is important that current employees be active and contributing members on that date to be eligible for these improved benefits. Much of our newsletter is devoted to explaining the changes that will result from the passage of the legislation.

CHANGES COMMON TO PLAN A AND PLAN B

NEW VESTING PERIOD

An important change being made to both plans is the establishment of a seven year vesting period with benefits being payable no sooner than age 65. A growing number of older age new hires has been evidenced and our board believes that a ten year vesting requirement can be relaxed in these cases. Thus, a new employee hired at age 60, for example, can work as little as seven years and earn a monthly retirement benefit. Likewise, a member who has worked seven years and terminates employment before age 65 can choose to leave contributions with us, forgoing a refund, and be eligible for a monthly benefit beginning at age 65.

Please note that this new vesting period is in addition to others already in place.

As of January 1, 2002 eligibility requirements for Plan A will be as follows:

Seven years of service at age 65
Ten years of service at age 60
25 years of service at age 55
30 years of service at any age

As of January 1, 2002 eligibility requirements for Plan B will be as follows:

Seven years of service at age 65
10 years of service at age 60
30 years of service at age 55

It is also important to note that a current member must be actively employed and contributing on January 1, 2002 to be eligible for this benefit change.

Finally, with regard to this additional vesting period, an active employee with seven years of service will be eligible to enter DROP as of their 65th birthday.

CHANGES IN RETIREE COLA

Changes in the Cost of Living Adjustment (COLA) are also permitted by the new legislation. Specifically, retirees age 62 and older who have been retired at least one year are eligible for these benefit adjustments. Current law permits only those age 65 and older to receive COLA's. Additionally, the maximum adjustment is raised from 2% to 2.5%. Perhaps most significant in this area is the change that allows us to compound the benefit by basing the COLA on the existing benefit rather than on the member's original benefit.

It is extremely important to note with regard to cost of living adjustments that they are not guaranteed each year. There are statutory tests to be met before our board can consider approval. Even then, the board has the final decision with regard to COLA's.

However, the new legislation gives the trustees more leeway in establishing these adjustments, when circumstances permit them.

INTEREST ON DROP

We frequently find that members who enter the Deferred Retirement Option Plan (DROP) choose to continue working after DROP participation ends. Beginning January 1, 2002 Parochial will be able to credit the accumulated DROP benefits with interest for the period between the end of DROP participation and the end of the member's employment. The rate of interest and the method of crediting interest must still be determined by our Board of Trustees.

Federal law prevents Parochial from distributing this lump sum until employment has ended. Thus, this interest payment, even though it may be modest, will serve as a return on the accumulated DROP benefit until employment actually ends and the lump sum can be paid.

Please note that interest will not begin accruing until January 1, 2002 and interest rate levels and payment methods must still be determined by our trustees.

RETIREE RETURNING TO WORK

Currently, a retiree may return to work on a temporary basis for a participating Parochial employer for up to 480 hours per calendar year without affecting the monthly retirement benefit. The new legislation retains this provision but for those retirees age 65 or older and who have been retired at least three years, the maximum hours that may be worked without impairing the monthly benefit is 1,040 each calendar year. However, if the retiree is employed longer than the maximum hours noted above, the retirement benefit will be reduced by the amount earned after the allowed number of hours.

If the retired member, who is otherwise eligible, becomes permanently employed by an employer participating in the Parochial plan, the retirement benefit is suspended and the member is considered to have returned to active service and contributions are resumed. Employment with any employer not participating in Parochial will have no impact on retiree benefits. Retirees who participated in DROP must be retired for a period as long as their participation in DROP in order for these provisions to apply. Prior to the expiration of this period, the provisions of R.S. 11:1938L will apply.

COMPUTING FINAL AVERAGE COMPENSATION

Another change brought about by the legislation relates to the salary increases that are considered in the benefit formula. “Final average compensation” is the average annual salary produced by the best 36 consecutive months of salary. Currently, this calculation permits a salary increase of as much as 25% in the second twelve months over the first twelve months and another 25% increase in the third twelve months over the second twelve months.

The new legislation reduces the 25% factor to 15%. Very few members are affected by this limitation and it is our experience that in most cases where the limitation is exceeded, it involves a member who has a great deal of influence over their own salary level. We view this change as a method of controlling costs in a small number of cases wherein a member has an extraordinary increase in salary shortly before retirement. If a member does experience increases in excess of 15%, full credit for these higher earnings levels can be received by simply postponing retirement.

CHANGES FOR PLAN B ONLY

Several additional changes will impact Plan B only.

DISABILITY RETIREMENT

The service requirement to be eligible for a disability benefit will be reduced from 10 years to 5 years.

SURVIVOR BENEFITS

The service required to be eligible for a survivor benefit will be reduced from 20 years to 10 years.

SALARY OFFSET ELIMINATED

Currently, the first $100 of salary each month is excluded for contribution purposes and in the calculation of benefits. Beginning January 1, 2002 this offset will no longer be effective. Thus, contributions will be based on a Plan B member’s full gross salary and, similarly, benefits first paid after that date will not utilize the offset. Please note that this change will not affect benefits for current retirees, only those actively employed and contributing on January 1, 2002 and retiring after that date.

RETIREMENT AGE LOWERED TO 60 WITHOUT REDUCTION

Another important change for Plan B is that which permits retirement at age 60 with ten years of service without the 3% per year reduction currently taken for retirements before age 62. At present, a Plan B member who wishes to retire at age 60 must accept a benefit that is 6% less than would be received if the member was 62. Again, this change will only affect those members actively employed and contributing on January 1, 2002 and who retire after that date.

This change will allow a Plan B member to enter DROP at age 60 with as little as ten years of service credit.

EMPLOYEE CONTRIBUTION RATE INCREASED

These changes to Plan B serve to bring a bit of uniformity with Plan A but more importantly they represent a substantial improvement for Plan B members as a group.

In view of the substantial changes for Plan B, it is necessary that the employee contribution rate be moved to 3% of gross salary effective January 1, 2002. The 2% contribution rate has been in effect for eleven years and it had been 5% for at least seven years prior to that. Given the substantial improvements being implemented for Plan B, the modest increase in the contribution is in order.

Please note that Plan B members are employed by parishes or agencies that also participate in Social Security. Contributions are made to both Parochial and Social Security and benefits are received from both.

KEEP US ADVISED OF CHANGES

Address changes,name changes and beneficiary changes are all commonplace today and keeping our office informed of these changes can be extremely important, particularly when it is time to pay out benefits. Please contact your employer's human resources office or Parochial's office for the form needed to record any such changes.

SOCIAL SECURITY CHANGES BEING CONSIDERED

A commission appointed by President Bush to make recommendations on strengthening Social Security meets again this month. Their report is due in the fall of this year. One change being considered is mandatory participation in Social Security for all government employees. The proposal being considered would require employees of governmental units (parishes) not now participating in Social Security to begin contributing. Such a change would not be positive for our Plan A, even if it is only applied to new hires. Please contact your Congressman and U.S. Senators to express your opposition to such a proposal.

Please note that if such a proposal would be adopted, it would impact only Plan A.

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ACTIVE MEMBERS NEWS is a publication of the Parochial Employees' Retirement System of Louisiana, located at 5420 Corporate Blvd., Suite 103, Baton Rouge, Louisiana 70808.