fact sheet

S·U·R·S
STATE UNIVERSITIES RETIREMENT SYSTEM

Making up SURS Contribution for Periods of Voluntary Pay Reduction in Lieu of Furlough (VPR)

Starting Jan. 1, 2017, SURS-covered employees may make up missed contributions for periods of voluntary pay reduction in lieu of furlough (VPR) during the period July 1, 2015, through June 30, 2017. Generally, a voluntary pay reduction is a written agreement between an employee and an employer to temporarily reduce salary instead of going on furlough.

What are the Eligibility Requirements for Making Contributions for Periods of VPR?

Employees may make up the contributions if the following conditions are satisfied:

- The VPR must have occurred during the period July 1, 2015, through June 30, 2017.
- The VPR must be in lieu of furlough. Documentation authorizing the employer to reduce an employee's pay in lieu of furlough is required.
- The employee must submit the Application to Make Voluntary Pay Reduction Contributions. The application must include VPR information certified by the employer. The completed application along with a copy of the documentation authorizing the employer to reduce pay in lieu of furlough must be postmarked and mailed or faxed to SURS by Dec. 30, 2018.

Must the Contributions Be Paid by Dec. 30, 2018?

No. SURS will accept applications until Dec. 30, 2018. Payment may be made at any time after the application is submitted, so long as it is made prior to retirement or death. It is advisable to pay sooner rather than later to avoid additional interest charges.

How are the Contributions and Interest Amounts Due for Periods of VPR Calculated?

To make up contributions for periods of VPR in lieu of furlough, employees must pay the employee and employer contributions, plus applicable interest.

- **Employee Contributions -** The employee contributions due for each period of VPR is the amount of earnings reduced during the period multiplied by the applicable contribution rate (8 percent for staff/academic employees and 9.5 percent for eligible police/fire employees).
- **Employer Contributions -** The employer contributions due for each period of VPR is based on the fiscal year's employer normal cost rate, expressed as a percentage of payroll. Under the Traditional and Portable Plans, the rate for FY 2016 is 12.69 percent and the rate for FY 2017 is 12.53 percent. Under the Self-Managed Plan, the employer cost rate is currently set at 7.6 percent. The employer normal cost for each period of VPR equals the amount of earnings reduced during the period multiplied by the applicable cost rate.

  Note: Under the Traditional and Portable Plans, the employer contributions will be placed in the employer reserve and will be used to pay employer-funded benefits. Under the Self-Managed Plan, a portion of the employer contributions (currently 0.3 percent) will be transferred to the disability reserves to fund disability benefits. The remaining employer contributions will be added to the employee's SMP investment account.
- **Interest -** If the employee makes up the SURS contributions within the same fiscal year as the VPR, no interest will be charged. If the employee defers payment beyond that fiscal year, the amount due at the time of payment will include interest. Interest on the contributions will be compounded based on the SURS actuarially assumed rate of interest up through the date of payment. The actuarially assumed interest rate for FY 2017 is 7.25 percent.

What is the Potential Impact on SURS Benefits if Contributions Are Not Made by an Employee in the Traditional or Portable Plan?

The potential impact of VPR contributions will vary from employee to employee. A couple of examples are provided on the next page for illustrative purposes.

fact sheet

- **General Formula** – Under the General Formula, the retirement annuity is based on years of service and the Final Average Earnings (FAE). VPR contributions restore the earnings credits for the academic year of the VPR and impact a General Formula annuity only if the VPR was taken during the FAE period (usually the last several years of an employee's career). To get an estimate of the impact on the monthly annuity, take the missed earnings and divide by 48 months for Tier I (96 months for Tier II), then multiply by the number of years of service at retirement and 2.2 percent. If an employee will be under age 60 at retirement for Tier I (or under age 67 for Tier II), then the annuity may be reduced by 0.5 percent per month under that age.

  Example: An employee has a VPR during the FAE period. The employee missed $1,200 in earnings. Assume the employee will have 25 years of service credit at retirement at age 60 for Tier I (or age 62 for Tier II).

  ($1,200 ÷ 48 months) x 25 years x 2.2 percent = **$13.75/month**

  In this example, making approximately $240.00 in VPR contributions increases the initial General Formula retirement annuity by $13.75 per month.

- **Money Purchase** (for employees hired before July 1, 2005) – Under the Money Purchase Calculation (MP), the impact of VPR contributions depends on how near the VPR contributions are to the retirement date. The closer the employee is to retirement, the less the VPR contributions will impact the annuity because the contributions will have had less time to gain interest. Using the example above, assume the employee retired three years after making payment for the VPR. The employee contributions used for the MP (6.5 percent of earnings; 8 percent for eligible police/fire employees) and employer matching contributions (1.4 times the employee contributions) are added to the total MP balance and then divided by the appropriate age factor based upon the employee's age at retirement to find an estimate of the impact on the annuity.

Employee contributions	$1,200 x .065 = $78.00 + 16.89* = $94.89
Employer matching contributions	$94.89 x 2.4 = $227.74
Increase in MP annuity	$227.74 ÷ 139.492 = $1.63 (age factor) = **$1.63/month**

  *Assumed **i**nterest earned on the VPR contributions from the date paid to the retirement date.

  In this example, making approximately $240.00 in VPR contributions increases the initial MP retirement annuity by $1.63 per month.

What is the Potential Impact on SURS Benefits if Contributions Are Made by an Employee in the Self-Managed Plan?

Self-Managed Plan participants will simply have the contributions (minus disability reserve contributions) added to their individual investment accounts.

Are Employees Required to Make Up SURS Contributions?

No. The decision to make up SURS contributions is entirely voluntary.

What is the Process for Making up SURS Contributions?

The steps below should be followed to make up VPR contributions:

1. The employee completes Part 1 of the Application to Make Voluntary Pay Reduction Contributions form. The form can be accessed at www.surs.org or by calling the SURS office at 800-275-7877.
2. The employee has their employer's human resources department fill out Part 2 of the Application to Make Voluntary Pay Reduction Contributions and forwards it to SURS along with documentation authorizing the employer to reduce pay in lieu of furlough. The employee should allow the employer sufficient time to submit the application to SURS prior to the deadline.
3. Upon receipt of the completed application, SURS will prepare the cost for the reported VPR, based on the official information certified by the employer.
4. The completed form must be submitted to SURS no later than Dec. 30, 2018. SURS will accept postmarks on or before Dec. 30, 2018, as well as faxed applications.
5. A letter will be sent to the employee providing cost information. The letter will include the instructions for making payments using after-tax dollars only.
6. SURS will mail a receipt confirming the posting of the contributions once full payment is received.