# Perspectives

FOR ACTIVE MEMBERS OF THE NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

SPRING 2002 • VOLUME 25, NUMBER 2


## In this issue...


- Revised Tax Notice Regarding Plan Payments
- Deferred Compensation Limit Increase
- Important Notice: Bank of ND Deferred Compensation Account
- ND PERS Future Directions
- Dental Plan Eligibility
- April: "Facts on Saving & Investing" Month
- Planning for Retirement
- EPO Annual Enrollment



This newsletter is published by the North Dakota Public Employees Retirement System
Box 1657, Bismarck, ND 58502
701-328-3900
Toll free: 1-800-803-7377
discovernd.com/ndpers




# Tax Credit for Deferred Compensation Savers

## *One of Several New Incentives for Supplemental Retirement Planning*

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) became effective January 1, 2002. It offers some new and improved benefits for participants in the State's Section 457 Deferred Compensation Plan. These benefits include contribution limit increases, changes to rules for hardship withdrawals, easier rollovers between plans, a new catch-up provision for members who are at least 50 years of age, a tax credit for lower income employees, and more flexible distribution rules.

**Tax Credit May Reduce Your Federal Income Tax**
If you contribute to the state's Section 457 Deferred Compensation Plan, you may be eligible for a federal tax credit, called a "saver's credit." This credit may reduce the amount of federal income tax you pay. The credit is based on your contributions and

*(continued on page 2)*

# PERS Board Election

The term of North Dakota Public Employees Retirement System (NDPERS) Board member Ron Leingang expires on June 30, 2002. NDPERS is required to give notification of the vacancy and the election process to all active employees.

Any active employee of a department of the State of North Dakota, or of a political subdivision who participates in NDPERS, may become a candidate for election to the Board so long as that department or political subdivision is not currently represented on the Retirement Board by a board member not up for election (NDCC 54-52-03). Members from the Department of Economic Development and Finance and Supreme Court currently serve on the Board, so employees from those agencies are not eligible to become candidates in the upcoming election.

An eligible individual must obtain the signatures of 100 active NDPERS members to be nominated as a candidate for the vacancy. Nomination petitions are available from the NDPERS office at 400 East Broadway, Suite 505, Bismarck, ND. The deadline to submit petitions is 4:00 p.m., Friday, May 3, 2002. Election ballots will be mailed to active members the last week of May 2002. Ballots must be returned no later than the close of business on Friday, June 14, 2002. Election returns will be tabulated on Monday, June 17, 2002.

If you have any questions about the election, please call the NDPERS office at 701-328-3918, or toll free at 1-800-803-7377 if you are outside the Bismarck-Mandan calling area.

## Meritcare's Purchase of Heartland Health System

Our office has received numerous calls regarding Meritcare's purchase of Heartland Health System and whether this affects their EPO participation.

Meritcare's purchase of Heartland Hospital will not affect your current participation as an EPO member with Meritcare or Dakota Clinic. Your affiliation is with the clinics not the hospitals. If your in-network doctor admits you into either hospital, as long as they have admitting privileges, then your inpatient stay will be processed at the in-network level.

## Important Notice Regarding Your Bank of North Dakota Deferred Compensation Account

Effective April 1, 2002, the interest rate on your Deferred Compensation account will be indexed on the five-year Bank of North Dakota Certificate of Deposit.

Thereafter, the interest rate on the account will be adjusted each January 1, and will be indexed off the Bank of North Dakota's five-year Certificate of Deposit rate.

## 2001 Comprehensive Annual Financial Report

NDPERS prepares a Comprehensive Annual Financial Report as of June 30 of each year. This report contains detailed financial, investment, actuarial and statistical information for the plans administered by NDPERS. You can view, download or print the report from the NDPERS website at www.discovernd.com/ndpers under the 'News' button. You may also request a copy of the report by sending an e-mail to khumann@state.nd.us or by calling the PERS office.

## Tax Credit *(continued from front)*

credit rate. The credit you are eligible for depends on your adjusted gross income and your filing status. It is calculated as a percentage of the first $2,000 contributed to a deferred compensation account. If you are married filing jointly, the maximum contribution used for the credit is $2,000 each for you and your spouse. As the table below indicates, the lower your adjusted gross income, the higher the credit rate.

| Credit | Single or Married (Filing Separately) | Married (Filing Jointly) | Head of Household | Max. Credit (Per Person) |
|---|---|---|---|---|
| 50% | $0 - $15,000 | $0 - $30,000 | $0 - $22,500 | $1,000 |
| 20% | $15,001 - $16,250 | $30,001 - $32,500 | $22,501 - $24,375 | $ 400 |
| 10% | $16,251 - $25,000 | $32,501 - $50,000 | $24,376 - $37,500 | $ 200 |

Following are examples of how the credit works based on your filing status.

***Example 1 – Single or Married (filing separately)***
*For 2002, Sarah's adjusted gross income would have been $27,000 if she had not made any retirement contributions. Instead, Sarah contributed $2,000 to her employer's deferred compensation plan (457 Plan). Therefore, her adjusted gross income for 2002 was reduced to $25,000 ($27,000 - $2,000).*

*Whereas Sarah's contribution is not subject to income taxation, she has effectively reduced her tax liability by $360 ($2,000 X 18%). In addition, under the new law, Sarah is also eligible to receive a $200 ($2,000 X 10%) tax credit based on her filing status as "single". In this example, by saving $2,000 for her retirement, Sarah has reduced her taxes by $560 ($360 + $200), assuming an 18%* tax rate.*

***Example 2 – Married Filing Jointly***
*For 2002, Susan and Mike's adjusted gross income would have been $34,000 if they had not made any retirement contributions. Instead, Susan contributed $2,000 to her employer's deferred compensation plan (457 Plan) and Mike made a deductible contribution of $2,000 to a traditional IRA. Therefore, their adjusted gross income for 2002 was reduced to $30,000 ($34,000 - $4,000).*

*Whereas Susan and Mike's contributions are not subject to income taxation, they have effectively reduced their tax liability by $720 ($4,000 X 18%). In addition, under the new law, Susan and Mike are also eligible to receive a $2,000 ($4,000 X 50%) tax credit based on their filing status as "married filing jointly". In this example, by saving $4,000 for their retirement, Susan and Mike have reduced their taxes by $2,720 ($720 + $2,000), assuming an 18%* tax rate.*

***Example 3 – Head of Household***
*For 2002, Jack's adjusted gross income would have been $26,000 if he had not made any retirement contributions. Instead, Jack contributed $2,000 to his employer's deferred compensation plan (457 Plan). Therefore, his adjusted gross income for 2002 was reduced to $24,000 ($26,000 - $2,000).*

*Whereas Jack's contribution is not subject to income taxation, he has effectively reduced his tax liability by $360 ($2,000 X 18%). In addition, under the new law, Jack is also eligible to receive a $400 ($2,000 X 20%) tax credit based on his filing status as "head of household". In this example, by saving $2,000 for his retirement, Jack has reduced his taxes by $760 ($360 + $400), assuming an 18%* tax rate.*

*(*Assumes a 15% federal tax rate and a 3% North Dakota state tax rate.)*

# Deferred Compensation Contribution Limit Increases

The annual contribution limit for the deferred compensation plan was increased from $8,500 to $11,000 for 2002. The limit will increase by $1,000 a year beginning in 2003 through 2006 until it reaches $15,000 and will be indexed for inflation in $500 increments thereafter. In addition, the contribution percentage has changed from the lesser of 25% of taxable income or the annual contribution limit to the lesser of 100% of includable compensation or the annual limit. Includable compensation is your gross compensation minus any employee contributions to your retirement plan which are paid by your employer under a 414(h) salary reduction arrangement.

The coordination of 457 deferrals with 401(k) or 403(b) deferrals is eliminated. If you participate in the deferred compensation plan and a 403(b) plan you may contribute $11,000 to each plan provided your includable compensation allows you to maximize contributions under both plans.

**Hardship Distributions**
Previously if you took a hardship distribution you were prohibited from making 457 contributions for 12 months from the date of the distribution. This suspension period has been shortened to six months.

**Rollovers**
In the past, amounts distributed from 457 deferred comp plans could not be rolled over, but could be transferred tax-free to another 457 plan. Upon separation from service, these distributions are now eligible for rollover to another 457 as well as a 403(b) plan, an eligible IRA, or other tax qualified plan so long as that plan allows for acceptance of such funds. However, if you roll money from a 457 plan into a 403(b) plan, for example, that money takes on the attributes of the 403(b) plan and the 10% penalty for early withdrawal will apply. Also, rollover distributions from a 457 deferred comp plan are subject to a mandatory 20% federal income tax withholding requirement unless you elect to make a direct rollover to an eligible plan.

**Catch-up Provision**
If you are 50 or older you are eligible for a special catch-up provision. This new provision allows you to contribute an additional $1,000, or a total of $12,000 in 2002 to your deferred compensation account. This catch-up amount will increase in $1,000 increments until 2006 and will be indexed thereafter. For purposes of this provision, you are deemed to be 50 on January 1st of the year you will turn 50 regardless of whether or not you terminate employment prior to your birth date. You cannot use the age 50 or older catch-up at the same time as the regular catch-up that applies in the three calendar years prior to normal retirement.

**Distribution Options**
EGTRRA has liberalized the distribution rules applicable to 457 deferred comp plans. In the past, upon termination from employment a participant was required to make an “irrevocable election” specifying the date for distribution of the account. You could elect to begin distribution immediately or defer it to a later date. You were allowed only a one time opportunity to change the election date. Also, once distribution began, you could not change the method of distribution. You will no longer be required to elect a distribution date upon termination from employment. Furthermore, once distribution begins, you will have the opportunity to change your payment schedule. The minimum distribution rules that require you to begin distributions no later than April 1 of the year following the year in which your turn age 70 1/2 still apply unless you are actively employed.

**Now Is The Time**
With the new EGTRRA regulations, now is a good opportunity to increase your supplemental retirement savings, save on taxes and prepare yourself for retirement. To enroll in the deferred comp plan, select a provider company and an agent representative to assist you. Information about the plan, eligible provider companies and agents, and a summary of investment options is on the PERS web site at www.discovernd.com/ndpers or you may call the NDPERS office.

## Filing Claims Under Workers’ Compensation

If you are receiving health care services through Workers’ Compensation, you can help make sure your claims are paid promptly and correctly. Claims should be filed to Workers’ Compensation, rather than your Blue Cross Blue Shield of North Dakota health plan. Because Workers’ Compensation does not require a cost-sharing amount, you will not need to pay a copayment or coinsurance for these services.

When you visit the clinic, inform your doctor that your condition is related to Workers’ Compensation, and ask him to note this on your prescription, if you need one. When you take your prescription to the pharmacy, be sure to remind the pharmacist that your prescription drug claim should be filed to Workers' Compensation.

If Workers' Compensation denies your claim, your BCBSND health plan will cover your costs in accordance with your benefit plan.

## RFP: Voluntary Insurance Products

NDPERS sent out a request for proposals for the group dental and long term care plans and for a group vision plan. The deadline for proposals is March 19, 2002. The proposals will be reviewed and evaluated by our consultant and the PERS Board will make the final selection by early summer. Program implementation will be January 1, 2003.

## Revised Special Tax Notice Regarding Plan Payments

In January 2002, the IRS published a revised Special Tax Notice due to the implementation of the Economic Growth and Tax Reconciliation Act (EGTRRA). This notice is attached to the NDPERS Notice of Termination form (SFN 17032) and is distributed to NDPERS Retirement Plan (the Plan) members who have recently terminated their employment. The following are revisions to the notice that affect the Plan:

• Allows rollovers out of the NDPERS plan to be made to additional eligible employer plans. An eligible employer plan now includes a plan qualified under 401(a) of the IRC, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan).

• Modifies payments eligible to be rolled out of the Plan to include after-tax contributions. Eligible after-tax contributions may be rolled over into either a traditional IRA or to certain employer plans that accept rollovers of after-tax contributions. Please note that the IRA/Employer Plan must be able to keep track of the after-tax employee contributions and the earnings thereof.

The terminated NDPERS member is responsible for checking with the IRA or employer plan to determine if they will be able to accept the funds and provide the necessary recordkeeping. If any portion of the rollover includes after-tax contributions, NDPERS will require a letter of acceptance from the financial institution before the request for a direct rollover will be processed.

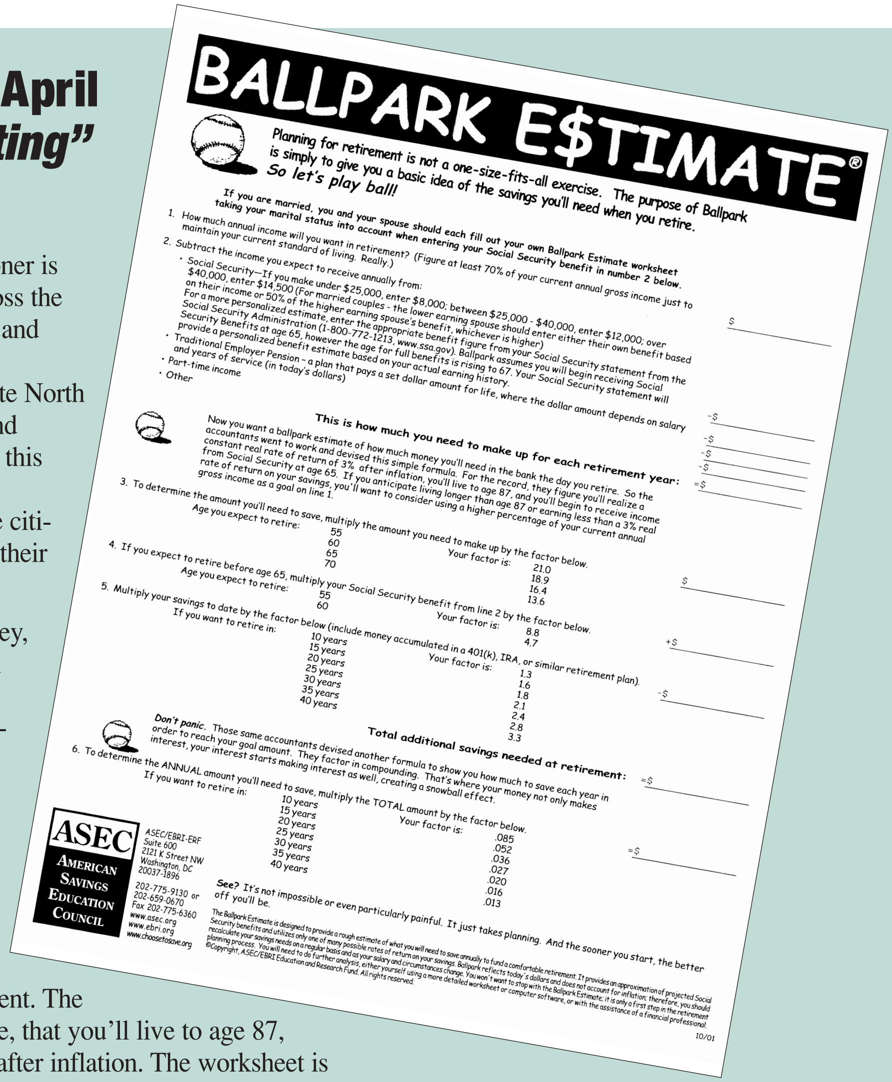
If you have received or will be receiving a plan payment in the near future, please consult your tax advisor or financial planner about these revisions and how they may affect your individual tax liability.

## Governor Hoeven Proclaims April *"Facts on Saving and Investing"* Month in North Dakota

The North Dakota Office of the Securities Commissioner is joining with the securities industry and regulators across the nation in promoting the fifth annual "Facts on Saving and Investing Campaign" during the month of April. The Securities Department will conduct activities to educate North Dakotans about the importance of saving, investing and avoiding securities fraud. Governor Hoeven is joining this effort by signing a proclamation in support of April as Saving and Investing month in our State and urges the citizens of our state to take an active role in planning for their financial futures.

According to the Annual Retirement Confidence Survey, only 53% have tried to determine how much they will need to save for a comfortable retirement. In addition, the median amount saved among 40-something households is less than $50,000.

The American Savings Education Council has a savings tool that can help you plan your retirement needs entitled the Ballpark Estimate worksheet. By simplifying some issues, such as projected Social Security benefits and earnings assumptions on savings, the Ballpark offers users a way to obtain a rough first estimate of what they will need for retirement. The worksheet assumes you'll need 70% of current income, that you'll live to age 87, and you'll realize a constant real rate of return of 3% after inflation. The worksheet is printed in this newsletter for your reference and can be found on the following website: www.asec.org (savings tool link) in printable form or interactive online version that lets the computer do the math.



BALLPARK E$TIMATE®

**Planning for retirement is not a one-size-fits-all exercise. The purpose of Ballpark is simply to give you a basic idea of the savings you'll need when you retire.**
***So let's play ball!***

**If you are married, you and your spouse should each fill out your own Ballpark Estimate worksheet taking your marital status into account when entering your Social Security benefit in number 2 below.**

1. How much annual income will you want in retirement? (Figure at least 70% of your current annual gross income just to maintain your current standard of living. Really.) $ ______
2. Subtract the income you expect to receive annually from:
   - Social Security—If you make under $25,000, enter $8,000; between $25,000 - $40,000, enter $12,000; over $40,000, enter $14,500 (For married couples - the lower earning spouse should enter either their own benefit based on their income or 50% of the higher earning spouse's benefit, whichever is higher) For a more personalized estimate, enter the appropriate benefit figure from your Social Security statement from the Social Security Administration (1-800-772-1213, www.ssa.gov). Ballpark assumes you will begin receiving Social Security Benefits at age 65, however the age for full benefits is rising to 67. Your Social Security statement will provide a personalized benefit estimate based on your actual earning history. -$ ______
   - Traditional Employer Pension – a plan that pays a set dollar amount for life, where the dollar amount depends on salary and years of service (in today's dollars) -$ ______
   - Part-time income -$ ______
   - Other -$ ______

**This is how much you need to make up for each retirement year:** =$ ______

Now you want a ballpark estimate of how much money you'll need in the bank the day you retire. So the accountants went to work and devised this simple formula. For the record, they figure you'll realize a constant real rate of return of 3% after inflation, you'll live to age 87, and you'll begin to receive income from Social Security at age 65. If you anticipate living longer than age 87 or earning less than a 3% real rate of return on your savings, you'll want to consider using a higher percentage of your current annual gross income as a goal on line 1.

3. To determine the amount you'll need to save, multiply the amount you need to make up by the factor below. $ ______

| Age you expect to retire: | Your factor is: |
|---|---|
| 55 | 21.0 |
| 60 | 18.9 |
| 65 | 16.4 |
| 70 | 13.6 |

4. If you expect to retire before age 65, multiply your Social Security benefit from line 2 by the factor below. +$ ______

| Age you expect to retire: | Your factor is: |
|---|---|
| 55 | 8.8 |
| 60 | 4.7 |

5. Multiply your savings to date by the factor below (include money accumulated in a 401(k), IRA, or similar retirement plan). -$ ______

| If you want to retire in: | Your factor is: |
|---|---|
| 10 years | 1.3 |
| 15 years | 1.6 |
| 20 years | 1.8 |
| 25 years | 2.1 |
| 30 years | 2.4 |
| 35 years | 2.8 |
| 40 years | 3.3 |

**Total additional savings needed at retirement:** =$ ______

***Don't panic.*** Those same accountants devised another formula to show you how much to save each year in order to reach your goal amount. They factor in compounding. That's where your money not only makes interest, your interest starts making interest as well, creating a snowball effect.

6. To determine the ANNUAL amount you'll need to save, multiply the TOTAL amount by the factor below. =$ ______

| If you want to retire in: | Your factor is: |
|---|---|
| 10 years | .085 |
| 15 years | .052 |
| 20 years | .036 |
| 25 years | .027 |
| 30 years | .020 |
| 35 years | .016 |
| 40 years | .013 |

**See?** It's not impossible or even particularly painful. It just takes planning. And the sooner you start, the better off you'll be.

ASEC American Savings Education Council
ASEC/EBRI-ERF
Suite 600
2121 K Street NW
Washington, DC
20037-1896
202-775-9130 or
202-659-0670
Fax 202-775-6360
www.asec.org
www.ebri.org
www.choosetosave.org

The Ballpark Estimate is designed to provide a rough estimate of what you will need to save annually to fund a comfortable retirement. It provides an approximation of projected Social Security benefits and utilizes only one of many possible rates of return on your savings. Ballpark reflects today's dollars and does not account for inflation; therefore, you should recalculate your savings needs on a regular basis and as your salary and circumstances change. You won't want to stop with the Ballpark Estimate; it is only a first step in the retirement planning process. You will need to do further analysis, either yourself using a more detailed worksheet or computer software, or with the assistance of a financial professional.


10/01

# NDPERS Retirement System
# Future Directions

The Board of the Public Employees Retirement System is continuing to work on the goals and objectives for the future of the main retirement system and is interested in your comments. This last session we reached our long standing goal of providing a career employee 90% of final average salary (including social security) at retirement. A career employee is a member with 25 years of service. Following are the goals and objectives under consideration by the PERS Board:

## GOAL #1

Enable career employees to care for themselves and their dependents at retirement and to provide a plan that will reduce personnel turnover and encourage employees to pursue long-term employment.

1. In order for career employees to provide for themselves and their dependents, the retirement plan should provide, at retirement, a benefit of 90% of final average salary plus the employer paid health insurance premium. The definition of career employee is 30 years.

2. To reduce employee turnover, encourage career employment and provide for career employees, PERS will have a two-tier benefit structure with a 2% multiplier for the first 20 years of service and a multiplier in the second tier that will achieve the above objective.

## GOAL #2

Establish a mechanism that will maintain the purchasing power of current retirement benefits.

1. Until PERS can develop, fund and implement a long term mechanism for providing cost of living adjustments, the system will provide regular increases to retirees that can be funded on an actuarially sound basis.

2. PERS will study the development of a method to provide long term cost of living adjustments to members of the system that can be accomplished on an actuarially sound basis.

## GOAL # 3

Provide members with greater flexibility to access, supplement, contribute to and draw from their retirement funds.

1. To consider revising the definition of final average salary to provide more flexibility for members to stay in public employment should their position change.

2. To examine additional options for members to draw their retirement benefit such as a partial lump sum payment.

3. To review possible enhancements in the Joint and Survivor benefit that would better provide for a member's spouse and could be done in a manner that would also be equitable for single employees.

4. To consider having a J&S benefit added to the level social security option.

## GOAL #4

Develop incentives for members to encourage supplemental retirement savings.

1. To develop a method by which members could get a portion of their PEP contribution either paid to them as cash at retirement, applied to the purchase of service, or used to offset retirement health premiums.

Please forward your comments to the PERS office, either in writing or by e-mail to ndpers@state.nd.us.

# Are You Planning to Retire in the Near Future?

For many, the decision to retire is one of the most difficult decisions they will ever make and it requires planning. To help get you started, the following is a checklist of items you should review to assist you in your retirement planning:

- Retirement options and amount of benefits
- Dakota Health Insurance Plan & Retiree Health Credit
- Participation or continuation of State Group Dental Plan
- Continuation of State Group Life Insurance
- Participation or Continuation of State Long-Term Care Insurance, if applicable
- Completion of any service credit purchases and sick leave conversion
- When retirement benefits will begin and payment method
- Taxation of benefits
- Return to work provisions
- Distribution options with State Deferred Compensation Investment Provider, if applicable

NDPERS recommends that you make application for retirement benefits at least 60 days prior to your retirement date. However, in accordance with laws governing processing of retirement benefits, NDPERS must receive an "Application for NDPERS Retirement/Insurance Benefits SFN 2562" and appropriate legal documentation a minimum of 30 days prior to your retirement date or distribution of your first retirement check. If documents are filed too late, your payment will be delayed.

As you can see, preplanning your retirement is a must!

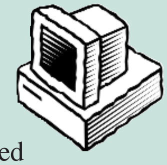
# EPO Annual Enrollment

This year's annual enrollment will run from May 1 through June 15, with coverage effective July 1, 2002. The annual enrollment period is provided to allow you to either continue your participation in the EPO or to cancel your participation.

In the past, representatives of NDPERS and Blue Cross Blue Shield of North Dakota have conducted meetings at various locations throughout the State to present the benefits of EPO participation. This year in lieu of on-site meetings, we will conduct a mailing campaign to promote enrollment in the EPO. Please watch your mail during the last week of April for this important notice and review the informational materials carefully. The financial incentive for you to participate in the EPO program is significant when compared to the Basic/PPO plan.

*For those of you keeping track, the Dow has climbed 28.9% from its post-September 11 attack lows, the NASDAQ is up 35.6%, and the S&P is nearly 21% higher.*

# New On-line Form Available to File Your FlexComp Claims



For your convenience, we have added two versions of the FlexComp Reimbursement Voucher (SFN 16868) to our website. A version you can print and complete and an interactive version that can be completed online and lets the computer do the math. These forms are on our website at: www.discovernd.com/ndpers, then choose FlexComp and Forms.



*Remember to visit and browse our website at*

**discovernd.com/ndpers**

*for information about NDPERS and its programs and operations.*

North Dakota Public Employees Retirement System
Box 1657
Bismarck, ND 58502-1657

PRESORTED
STANDARD
US POSTAGE
**PAID**
PERMIT NO. 37
BISMARCK, ND
58501