



Montana Teachers'
Retirement System

TERMINATION PAY AND OTHER TRS PROCEDURES

2021 MASBO Spring Regional Workshops

Cathy Leonard
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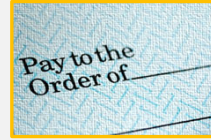
THIS PRESENTATION WILL COVER:

- ✓ Which payments qualify as termination (“term”) pay
- ✓ What options are available for including term pay in calculation of TRS retirement benefits
- ✓ When to have an employee sign TRS Form 129, *Termination Pay Irrevocable Election* (must use **NEW FORM** and **Fact Sheet**)
- ✓ How to use the Term Pay Calculator and TRS Form 113, *Retirement Termination Pay*
- ✓ **NEW** – a *Termination Pay flowchart!*
- ✓ Monthly Reporting Requirements and Tips from Nolan Brilz



TERMINATION PAY GENERALLY INCLUDES:

- Bona fide vacation leave, personal leave, sick leave, severance pay
- Amounts provided under a window or early retirement incentive plan
- Other payments contingent on terminating employment and retiring
 - Note: If your district's termination or severance package includes options or benefits other than cash payments, you must contact TRS for a determination before remitting a contribution on a retiring employee's behalf.



To be considered termination pay, these payments must be made to the employee at the time of termination and retirement.

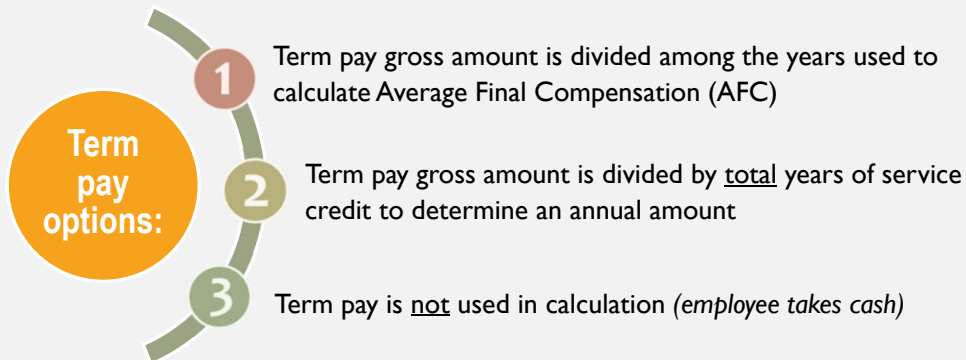


TERMINATION PAY DOES NOT INCLUDE:

- Amounts that are not wages under Section 3121 of the Internal Revenue Code (IRC)
- Amounts payable from a deferred compensation plan under Section 457(f) of the IRC
- Amounts that are not actually paid to the employee at the time of termination and retirement
- Amounts for which the employee was allowed a choice between a cash payment and another form of payment
 - *Example:* District offers the option of either cash or payment of health insurance premiums in lieu of cash



THREE OPTIONS FOR TREATMENT OF TERMINATION PAY



OPTIONS 1 AND 2 INCREASE THE RETIREE'S MONTHLY BENEFIT

- Employer and employee must make contributions to TRS to fund the increase in benefits over the employee's lifetime
- Option 1: Largest increase in benefits = highest cost
 - Termination pay amount may be insufficient to fund the entire cost
 - Employee may owe additional money to TRS ("out of pocket" cost)
- Option 2: Smaller increase in benefits = lower cost



FOR **TAX DEFERRAL** OF EMPLOYEE CONTRIBUTIONS:

- You and the employee must sign TRS Form 129 *Termination Pay Irrevocable Election* (TPIEF) and file with TRS **at least 90 calendar days prior to employee's termination date** for employer to deduct contributions on a pre-tax basis (IRC rule)
- Otherwise, employee may still elect Option 1 or Option 2 but must pay contributions by personal check

IMPORTANT:

You must provide to the employee the new version of Form 129 with attached Fact Sheet



Montana Teachers' Retirement System
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FORM 129: TERMINATION PAY IRREVOCABLE ELECTION

In compliance with the Americans with Disabilities Act of 1990, alternative accessible formats of this document will be provided upon request.

Before completing this form, read the requirements on Page 2 and in the enclosed *Termination Pay Fact Sheet*. It is your responsibility to complete and submit this form to TRS in conformity with your wishes regarding the use of termination pay. This form is void unless fully completed and submitted to TRS **90 days** prior to your termination of employment. *Note: If you wish to use termination pay, you must complete this form and submit it to TRS 90 days prior to your termination of employment.*

New version on website (trs.mt.gov) with attached Termination Pay Fact Sheet!

Full Name: First _____ Last _____
Maiden or Other Name _____
Mailing Address - Street or P.O. Box _____ City _____ State _____ ZIP Code (use ZIP+4 if known) _____ Telephone Number _____

Member must complete items A, B, and C. ▶

SECTION II: MEMBER'S ELECTION AND CERTIFICATION

A. ☐ I certify that I have read and understand the *Termination Pay Fact Sheet*, and
B. ☐ I elect to use termination pay in the calculation of my benefit according to the option I marked in "C".
C. Choose one option: ☐ Termination Pay Option 1 ☐ Termination Pay Option 2

SIGNATURE. By my signature on this form, I direct my employer, at the time of my termination of employment and retirement, to report the total amount of my termination pay to the Montana Teachers' Retirement System (TRS) and to pick up and remit member contributions on the total termination pay amount to TRS on a tax-deferred basis to the extent the contributions can be withheld from my termination pay. I understand this election, once submitted to TRS, may not be revoked. I also understand that if I have elected Termination Pay Option 1 and my required member contributions exceed the amount available for employer pick-up, I must remit the remaining member contributions by personal check made payable to TRS.

MEMBER'S SIGNATURE - must be signed in the presence of a notary public

Signature _____ Date _____
TO BE COMPLETED BY THE NOTARY PUBLIC:
State of _____
County of _____
This instrument was signed or acknowledged before me on _____
by _____
Print name of signer _____
Notary Signature _____

Employer must complete SECTION III on Page 2 ▶

Revised 2/4/2021 TRS FORM 129 (TPIEF) 1 of 2

TIP

Will your school district offer a retirement incentive?

Submit the incentive language to the TRS Executive Director for review prior to the 90-day window.

Otherwise, the member will be unable to sign the TPIEF in time to accept the incentive on a tax-deferred basis.

Instead, the member would need to pay required contributions out of pocket (after tax)!

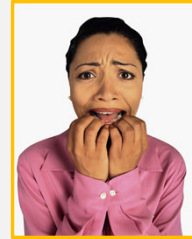


**SIGN AND SUBMIT TPIEF AT LEAST 90 CALENDAR
DAYS AHEAD – BUT NOT TOO FAR AHEAD**

- Employees should **get an estimate of retirement benefits** – either from TRS staff or by using *My TRS* – **before they make an irrevocable election**



Employees should not make an election until they understand how it affects them!



EXAMPLE: TERM PAY OPTION I

Hypothetical employee retiring at age 60			
Service credit:	25 Years	30 Years	35 Years
Term Pay Amount	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00
FICA/Medicare 7.65%	(\$ 382.50)	(\$ 382.50)	(\$ 382.50)
Net Amount	\$ 4,617.50	\$ 4,617.50	\$ 4,617.50
Contributions Due TRS	(\$ 4,200.00)	(\$ 5,040.00)	(\$ 5,880.00)
Difference	\$ 417.50*	(\$ 422.50)**	(\$ 1,262.50)**
Monthly Benefit Increase	\$ 57.87	\$ 69.44	\$ 81.02
Recovery time	(N/A)	6 months	16 months

The more years of service, the more it will cost

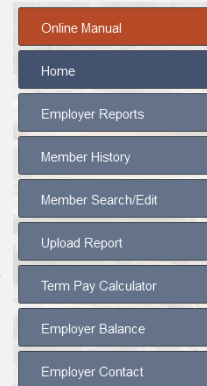
** Out-of-pocket expense payable to TRS by personal check to fund the benefit increase

* Payable to the employee, less federal and Montana state income taxes



USING THE ONLINE TERM PAY CALCULATOR

- Once the employee has terminated and the term pay amount is known:
 - Log into the TRS Wage & Contribution Reporting System
 - Select “Term Pay Calculator” from the menu
 - Look up your employee by name or SSN
 - *TIP:* Use the online manual (red button) for more information about using the screen



continued on next page

Example #1. This member has a TPIEF on file

TRS Employer Wage & Contribution Reporting System

Term Pay Calculator

41 PUBLIC SCHOOLS (Test)

Member: 2 E SSN

Current Employer: 11 PUBLIC SCHOOLS (Test)

Date of Birth: 12/26/1958

Termination Date: 06/10/2021

Retirement Date: 07/01/2021

Years of Service: .00

Buyback Service Available: .00

Total Service: .00

Termination Pay Amount: 7625.00

FICA Withholding Amount: 472.75

Medicare Withholding Amount: 110.56

Termination Pay Option: 1

Please use the term pay calculator to determine the amount of FICA and Medicare to be withheld from a


FICA withholding: 6.2%
Medicaid withholding: 1.45%
Total withholding: 7.65%

After entering the termination pay amount, you can click on the calculators to calculate the withholdings. When you report withholdings for termination pay, you can override the amount shown when you report; however, you may not withhold more than the percentages above.

Please be sure to report the actual amount to be withheld, not an estimate.

4 Calculate

To use the Term Pay Calculator:

1. Enter employee's **Termination Date** (last day of work)
 - System will fill in **Retirement Date** and **Years of Service**
2. Enter the **Termination Pay** amount
 - Termination Pay Option field shows the election previously made by employee
3. Click the  icons to fill in FICA and Medicare withholding
4. Click **Calculate**



TRS Employer Wage & Contribution Reporting System

Term Pay Calculator

41 PUBLIC SCHOOLS (Test)

Member: 2 E SSN Find Lookup

Employer	#1	PUBLIC SCHOOLS (Test)
Date of Birth	12/26/1958	Member's Age 63
Termination Date	06/10/2021	
Retirement Date	07/01/2021	First day of month after Termination Date
Years of Service	36.00	Service Verified by TRS on 01/05/2021
Buyback Service Available	.00	
Total Service	36.00	
Termination Pay Amount	7,625.00	Termination Pay Option 1
FICA Withholding Amount	472.75	
Medicare Withholding Amount	110.56	

Termination Pay Option	Employee Contribution Rate	Employee Contribution Due	Employer Contribution Rate
Option 1	3.18%	\$8,729.10	

This is an estimate and not to be construed as a firm commitment of the employee and employer contributions. Many factors may affect the final calculation, including future changes in law and/or administrative actions.

Termination Pay Out-of-Pocket Calculation for Option 1	
Termination Pay Amount	7,625.00
Less FICA Withholding Amount	472.75
Less Medicare Withholding Amount	110.56
Net Amount (Tax Deferred)	7,041.69
Contribution Due TRS	8,729.10
Out-of-Pocket Expense	1,687.41

An 'Out of Pocket Expense' represents the fund an increase in the Member's monthly

Recalculate

Use the 'Recalculate' button to change parameters and recalculate the term pay amount

Example #1 (continued)

Employee made irrevocable election (Option 1) at least 90 days before termination date. Employer must withhold employee contributions from pay on tax-deferred basis.

Employee owes only the remainder as an out-of-pocket expense.

Example #2. This member does not have a TPIEF on file

TRS
Term Pay Calculator

0091 PUBLIC SCHOOLS (Test)

Current Employer		0091 PUBLIC SCHOOLS (Test)
Date of Birth	10/02/1956	
Termination Date	06/10/2021	
Retirement Date	07/01/2021	First day of month after Termination Date
Years of Service	00	Service Verified by TRS on 11/24/2020
Buyback Service Available	00	
Total Service	00	
Termination Pay Amount	7625.00	Termination Pay Option: Both
FICA Withholding Amount	472.75	
Medicare Withholding Amount	110.56	

Please use the term pay calculator to determine the amount of FICA and Medicare to be withheld from a retiring member's termination pay.

FICA withholding: 6.2%
 Medicaid withholding: 1.45%
 Total withholding: 7.65%

After entering the termination pay amount, you can click on the calculators to calculate the withholdings. When you report withholdings for termination pay, you can override the amount shown when you report; however, you may not withhold more than the percentages above.

Please be sure to report the actual amount to be withheld, not an estimate.

Since the member has not yet made an irrevocable election, you can choose to calculate the contribution costs for both Option 1 and Option 2

TRS Employer Wage & Contribution Reporting System
Term Pay Calculator

0091 PUBLIC SCHOOLS (Test)

Employer		0091 PUBLIC SCHOOLS (Test)	Member's Age 65
Date of Birth	10/02/1956		
Termination Date	06/10/2021		
Retirement Date	07/01/2021	First day of month after Termination Date	
Years of Service	30.00	Service Verified by TRS on 11/24/2020	
Buyback Service Available	00		
Total Service	30.00		
Termination Pay Amount	7,625.00		
FICA Withholding Amount	472.75		
Medicare Withholding Amount	110.56		

Termination Pay Option	Employee Contribution Rate	Employee Contribution Due	Employer Contribution Rate	Employer Contribution Due
* Option 1	3.06%	\$6,999.75	3.19%	\$7,297.13
Option 2	8.15%	\$621.44	11.55%	\$880.69

*Employee Contribution Due Must Be Remitted By Member - Via Personal Payment.

This is an estimate and not to be construed as a firm commitment of the employee and employer contributions to be paid on termination pay. Many factors may affect the final calculation, including future changes in law and/or administrative rules.

Termination Pay Out-of-Pocket Calculation for Option 1	
Termination Pay Amount	7,625.00
Less FICA Withholding Amount	472.75
Less Medicare Withholding Amount	110.56
Net Amount (Tax Deferred)	00
Contribution Due TRS	6,999.75
Out-of-Pocket Expense	6,999.75

An 'Out of Pocket Expense' represents the additional employee contribution due to fund an increase in the Member's monthly retirement benefit.

Example #2, no TPIEF on file (continued)

Employee can still elect Option 1 or Option 2 but must pay all contributions out of pocket (after tax)

Use the
Term Pay Calculator
anytime!

Example:
A smaller school district can use it
as a budgeting tool if they know a
teacher will retire next year.

TIP

Use the 'Recalculate' button to change parameters and recalculate the term pay amount

PRINT CALCULATION AND SEND TO TRS WITH FORM 113 – RETIREMENT TERMINATION PAY

- You can print the calculation using the Print icon at the top of screen:

Montana Teachers' Retirement System

- Follow all instructions on TRS Form 113 *Retirement Termination Pay*
- Submit Form 113 to TRS (fax, email* or mail) with the Term Pay Calculator printout *one week prior* to submitting your Wage & Contribution report

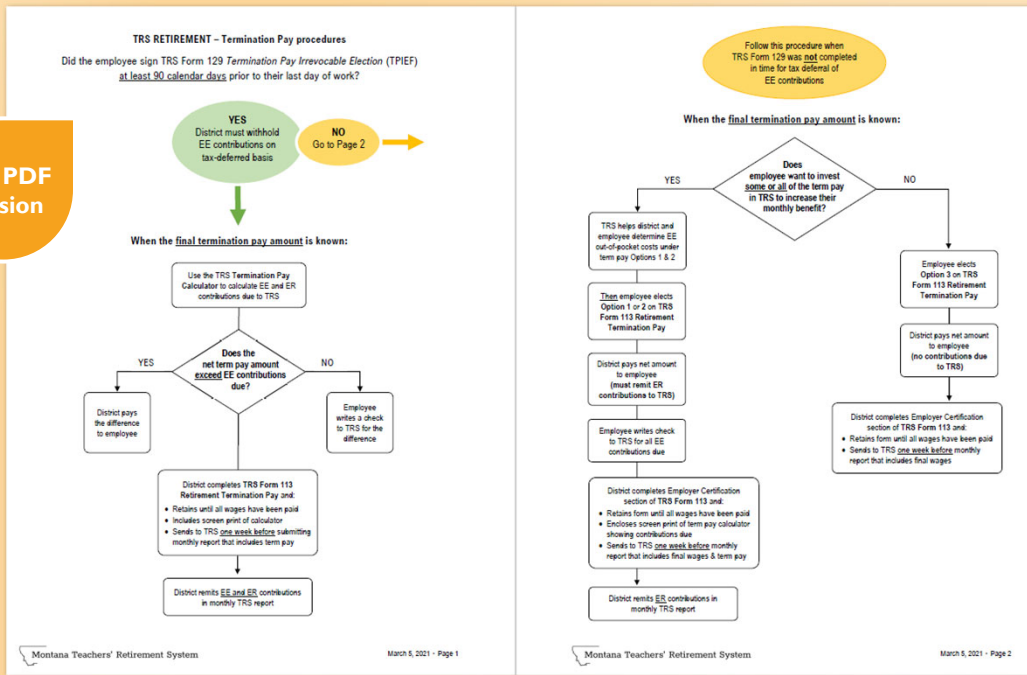
*** If you are emailing the Term Pay Calculator screen image, black out the employee's SSN for privacy/security reasons**

TERM PAY FLOWCHART

TRS has created a new Termination Pay flowchart to help business managers with the required forms and contributions

We thank Jane Knudsen of Malta Public Schools for the idea!

See PDF version





Montana Teachers'
Retirement System

REPORTING REQUIREMENTS, NEW MEMBER PROCESS, AND MORE

Nolan Brilz, TRS Accounting & Fiscal Manager

AVOID THESE COMMON REPORTING ERRORS

- TRS emailed a memo on February 19, 2021: “Wages must be reported to TRS when earned, not when paid”
 - Available on [Communication Archive](https://trs.mt.gov/communication-archive) page of TRS website (trs.mt.gov)
- Common errors:
 1. Reporting more than one month’s wages and hours on a single report for classified/hourly staff
 2. Increasing FTE for part-time staff when reporting summer pay on your June report
 3. Reporting certified/contracted staff on a “when earned” basis and classified/hourly staff on a “when paid” basis on same report



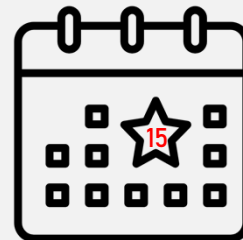
AVOID THESE COMMON ERRORS (continued)

- What are the consequences of such reporting errors?
 - Employee's creditable service could be overstated or understated
 - The error might not be discovered until years later when the member wants to retire
 - TRS staff must perform an audit to ensure the member's creditable service is accurate. To do this, TRS staff may need you to research old payroll records
 - The member's retirement may be delayed!

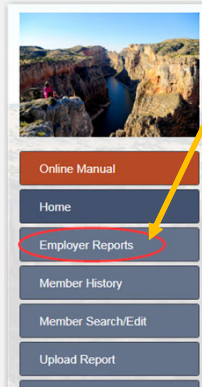


MONTHLY REPORTING DEADLINES

- Reports are always due by the **15th** of the following month
- **Important: Submit June report by July 15 for fiscal year closeout**
- TRS now requires a report each month
 - even if you have no wages to report (e.g., summer months)
 - We'll review "\$0 contribution" reports next



NO WAGES TO REPORT? SUBMIT \$0 CONTRIBUTION REPORT



1. Select **Employer Reports** from menu
2. Click the **Add (+)** button

TRIS Employer Wage & Contribution Reporting System

List Employer Reports

011 ELEMENTARY (Test)

NOTE: TRS will require employers to report wages every month. For summer months when no wages are paid, use the Plus (+) button to create a \$0 contribution report, then submit the report to TRS. For detailed instructions, see the Online Manual.

Pay Period	No/ Type	Date Submitted	Post	TRIS Empe	Earnings	Employee Contrib	Employer Contrib	Over+ Short-	Total Remitted	
										+



HOW TO SUBMIT A \$0 CONTRIBUTION REPORT (continued)

3. Select **YES** for “\$0 Contribution?”
4. Click **Save...** then OK to confirm...

TRIS Employer Wage & Contribution Reporting System

Add Report Header

011 PUBLIC SCHOOLS (Test)

If this report is for a summer month in which no wages were paid, select YES for “\$0 Contribution Report,” click Save, then OK to confirm.
Be sure to submit the \$0 Contribution report to TRS. For more tips, see the Online Manual.

Report Type: Contribution | \$0 Contribution Report? Yes ☒ No ☐

Pay Period: 06/2019

Note:

Save

- Report Type defaults to Contribution
- Pay Period defaults to the next month that has not been reported



HOW TO SUBMIT A \$0 CONTRIBUTION REPORT (continued)

5. Return to **Employer Reports**
6. Click the **Down** arrow on this \$0 report and click **Submit**



Pay Period	No/ Type	Date Submitted	Post	TRS Empe	Earnings	Employee Contrib	Employer Contrib	Over+ Short-	Total Remitted	
06/2019	1 C			0	.00	.00	.00	.00	.00	⬇️ ⬆️

TIP: There is no editing step –\$0 contribution reports post right away



EMPLOYER CONTRIBUTION RATES EFFECTIVE JULY 1, 2021

- School district employer contribution rates increase by 0.1% every year (through 2024)
 - See “Rates & Salary Charts” page on TRS website (trs.mt.gov)
 - Link is on right side of Home page
- Effective July 1, 2021:
 - **9.27%** for active members
 - **11.65%** for working retirees



THE TRS 'NEW MEMBER' PROCESS

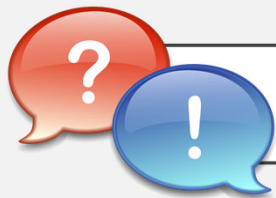
- In spring 2020, TRS announced a new, streamlined process
- Business managers no longer distribute and collect TRS enrollment or beneficiary designation forms
- When TRS receives your report with wages for an employee who was not already a member:
 - TRS automatically creates member's account and mails a welcome letter
 - Member then can designate beneficiaries online in *My TRS*
- **Do you have any questions about this process?**



COMING SOON!

- TRS now is working on an **online withdrawal process**
 - Online application will reduce errors and streamline the process
 - Only members who terminated all TRS-reportable employment and are not planning to return may apply for withdrawal
- **FYI:** Employer 'certification of termination' step may be incorporated into the Wage & Contribution Reporting System (*details TBD*)
 - Tentative implementation: Fall 2021





QUESTIONS?

Questions about Term Pay forms:	Cathy Leonard	(406) 444-3132	Cathy.Leonard@mt.gov
TRS Benefit Officers:	Johnelle Sedlock	(406) 444-4113	jsedlock@mt.gov
	Jessie Hill	(406) 444-3091	Jessie.Hill@mt.gov
	Margaux Lilly	(406) 444-3324	Margaux.Lilly@mt.gov
TRS Accounting Team: (Questions about monthly reporting)	Nolan Brilz	(406) 444-3679	NBrilz@mt.gov
	Christian Ward	(406) 444-3323	Christian.Ward@mt.gov
	Ali Holland	(406) 444-2540	Alison.Holland@mt.gov

