

Free

EMPLOYER REPORTING, COMPLIANCE & EDUCATION



EMPLOYER REPORTING MANUAL



CHAPTER 1

KRS Information

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PLAN ADMINISTRATION

The Commonwealth of Kentucky provides retirement benefits for most state and county employees through Kentucky Retirement Systems, which consists of three separate retirement systems:



1. Kentucky Employees Retirement Systems (KERS) established July 1, 1956 for state employees.



2. County Employees Retirement Systems (CERS) established July 1, 1958 for local government and classified school board employees.



3. State Police Retirement Systems (SPRS) established July 1, 1958 for uniformed Kentucky State Police officers.



STATUTE

[KRS 61.645](#)



READ MORE

KRS is governed by a Board of Trustees established pursuant to [Kentucky Revised Statute 61.645](#).

[Read more about the Board of Trustees.](#)

An Executive Director oversees the administration of KRS.

During the 2015 Regular Session of the General Assembly, the Public Pension Oversight Board was established. This board is a legislative advisory board attached administratively to the Kentucky Legislative Research Commission.

[Read more about the Public Pension Oversight Board.](#)



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LAWS AND REGULATIONS

KERS, CERS and SPRS are qualified governmental defined benefit plans established under Section 401(a) of the Internal Revenue Code (IRC).

KRS administers three benefit tiers as provided by Kentucky law. Participation date is when a member began paying contributions and earning service credit with Kentucky Retirement Systems. A member's participation date can change the level of benefits to which they are entitled, health insurance eligibility and their eligibility to purchase service.

- **Tier 1:** Participation date prior to September 1, 2008 (defined benefit plan)
- **Tier 2:** Participation date September 1, 2008 through December 31, 2013 (defined benefit plan)
- **Tier 3:** Participation date January 1, 2014 and after (hybrid cash balance plan)



STATUTE

[KRS 61.510 - 61.705](#)

[KRS 78.510 - 78.852](#)

[KRS 16.505 - 16.652](#)

The three systems are governed by the following state statutes:

- [Kentucky Revised Statutes 61.510 through 61.705](#) applies to **KERS**
- [Kentucky Revised Statutes 78.510 through 78.852](#) applies to **CERS**
- [Kentucky Revised Statutes 16.505 through 16.652](#) applies to **SPRS**



KAR Chapter 105

HICON Health Insurance Contribution



 [PDF LINK](#)
[Memorandum
of Agreement](#)

The administrative regulations necessary to carry out the statutes, policies and procedures covering KRS are found in [Chapter 105 of the Kentucky Administrative Regulations](#).

PLAN FUNDING

KRS benefits are funded through three sources:

1. Employee contributions deducted from an employee's creditable compensation,
2. Employer contributions paid by each agency participating in KRS, and
3. Return on investments.

EMPLOYEE CONTRIBUTIONS

Kentucky law provides that all employees meeting the requirements for membership contribute a percentage of their gross wages, referred to as creditable compensation. The amount the employee contributes is determined by their benefit tier. Employees classified as hazardous contribute a different amount than employees classified as nonhazardous. Due to legislation enacted by the 2008 Special Session of the General Assembly, employees with a participation date on or after September 1, 2008 contribute an additional, non-refundable, one percent health insurance contribution (HICON).

EMPLOYEE CONTRIBUTION		
TIER	PARTICIPATION DATE	CONTRIBUTION
Tier 1	Prior to 9/1/08	Without HICON NHAZ 5%; HAZ 8%
Tier 2	9/1/08 - 12/31/13	With HICON NHAZ 5% + 1% HICON HAZ 8% + 1% HICON
Tier 3	1/1/14 and after	With HICON NHAZ 5% + 1% HICON HAZ 8% + 1% HICON

TAX TREATMENT OF EMPLOYEE CONTRIBUTIONS

When mandatory employee contributions are deducted from an employee's check, the contributions are exempt from Federal and State Income Tax withholding. Mandatory employee contributions have been exempted from Federal and State Income Tax withholdings since August 1, 1982. These contributions are tax deferred, which means the contributions are withheld from employees' gross pay before Federal and State Income Tax.

From January 1, 1987 through December 31, 2016, Federal Social Security withholdings were also exempt. This changed January 1, 2017 under a [Memorandum of Agreement](#) between the Commonwealth of Kentucky and the Internal Revenue Service. As of January 1, 2017, employee contributions are deducted after Federal Social Security is withheld.



[KRS 61.565](#)

[KRS 61.702](#)



[READ MORE](#)

[Chapter 2:
Employee
Reporting](#)

EMPLOYER CONTRIBUTIONS

The KRS Board of Trustees is required by [Kentucky Revised Statutes 61.565](#) and [61.702](#) to determine the employer contribution rates for KERS and SPRS based on an annual actuarial valuation. Recommended employer contribution rates are determined by the annual actuarial valuation and presented to the KRS Board of Trustees for approval. Actual employer contribution rates for KERS and SPRS are set by the General Assembly in the biennial executive branch budget bill. The KRS Board of Trustees sets the CERS employer contribution rates pursuant to [Kentucky Revised Statutes 61.565](#) and [61.702](#). Please note that employer contribution rates are subject to change depending on future actions of the General Assembly.

Each employer is required to contribute the rate set by law to the Systems. Employer contributions are paid on creditable compensation earned by each employee eligible for membership in KRS. Read more about eligible employees in [Chapter 2](#).

[Read more about historical and current employer contribution rates.](#)

DEPOSIT OF EMPLOYER CONTRIBUTIONS

Employer contributions are used to pay monthly benefits and to fund KRS administrative expenses. Employer contributions are deposited to the Retirement Allowance Account and the Insurance Fund, with the exception of the Employer Pay Credit for Tier 3 members. The Employer Pay Credit portion of employer contributions for Tier 3 members is deposited to the member's account each month.

DEPOSIT OF EMPLOYEE CONTRIBUTIONS

All employee contributions, except for the one percent health insurance contribution required for members in Tiers 2 and 3, are deposited in the member's account. The additional one percent health insurance contribution paid by members with a participation date on or after September 1, 2008 is deposited into a non-refundable trust to reduce the unfunded liability of the insurance plans.

When an employee retires, his or her account balance is transferred to the Retirement Allowance Account to pay retirement benefits.

CREDITABLE COMPENSATION

Creditable compensation is used to calculate retirement benefits and must be reported for every employee each month.

What's Included

Creditable compensation consists of all salary, wages, tips, fees and payments for compensatory time, paid as a result of services performed for the employer, or for time when the member is on paid leave which are includable on the member's Federal Form W-2, Wage and Tax statement, under the heading "Wages, Tips, and Other Compensation".



Exception: For employees whose participation date is on or after September 1, 2008, lump-sum payments for compensatory leave before or after retirement cannot be included in creditable compensation and should not be reported to KRS.

Elective amounts for qualified transportation fringe payments not includable in gross salary per Title 26 United States Code Section 132(f)(4) are also part of creditable compensation.

This includes any of the following provided by an employer to an employee:

- Transportation in a commuter highway vehicle if such transportation is in connection with travel between the employee's residence and place of employment.
- Any transit pass.
- Qualified parking.
- Any qualified bicycle commuting reimbursement.

Lump sum bonuses, severance payments or employer-provided payments for purchasing service credit are also included in creditable compensation for reporting. These types of payments must be reported separately from regular wages on the monthly detail report. If these types of payments exceed \$1,000 for the fiscal year, then the combined payments will be averaged over an employee's total service in the system in which they are reported.

If an employee's compensation package includes non-monetary items, such as provided vehicles or housing, the KRS Board of Trustees shall determine the value of these items for purposes of reporting contributions.

What's Not Included

Living allowances, expense reimbursements, and lump-sum payments for accrued unused vacation time are not considered creditable compensation and should not be reported to KRS. Lump sum payments for unused sick leave when an employee terminates may only be reported to KRS if the agency participates in the Alternate Sick Leave Program under [Kentucky Revised Statute 78.616\(5\)](#). Lump sum payments for unused sick leave at any time other than termination, lump sum compensatory time payments for employees who began participating on or after 9/1/2008 and nominal fees for volunteers with a participation date on or after August 1, 2016 are not reportable. There are also specific retired reemployed exemptions explained in [Chapter 2](#).

Member pension spiking may affect creditable compensation for retirement purposes. Read more about pension spiking in [Chapter 2](#).

FISCAL YEAR LIMITS

Section 401(a)(17) of the Internal Revenue Code limits the amount of creditable compensation that can be reported during the fiscal year. Under these guidelines, employee and employer contributions are to be reported on the monthly detail report for all creditable compensation earned by an employee up to the maximum annual limit. Once an employee reaches the creditable compensation limit, no contributions are to be reported for the remainder of the fiscal year. However, the employer must continue to report the employee's creditable compensation for the remainder of the fiscal year using the "Salary that Exceeds IRS Limit" field on the monthly detail report. If the employer reports contributions on salary in excess of the creditable compensation limit, KRS will refund those contributions.

[Read more](#) about Creditable Compensation and Fiscal Year Limits.



If a member is paying into a before-tax compensation plan, such as a 401(k) or a 457 plan, the amount contributed to these plans does not reduce a member's creditable compensation for purposes of calculating retirement benefits. A member's creditable compensation is determined prior to any deductions to before-tax compensation plans.



STATUTE

[KRS 78.616\(5\)](#)



READ MORE

[Chapter 2:
Employee
Reporting](#)



READ MORE

INDIVIDUAL MEMBER ACCOUNTS

ACCOUNT ADMINISTRATION

Prior to retirement, an account is maintained for individual employee contributions. The balance in the account cannot be garnished or used for collateral on a loan. Members actively contributing to one or more of the systems cannot withdraw funds from their account(s).

CONFIDENTIALITY

Information in a member's account is confidential. Requests for information about a member's account must be made in writing or in person and should contain the Member ID, home mailing address, and signature. Account information cannot be provided over the telephone unless the caller provides the Member ID and the PIN assigned to the account.



Account information will be released in response to a lawful subpoena or court order.

PIN
Personal
Identification
Number



MEMBER FORMS

[Form 2035](#)
[Form 2001](#)

MEMBER FORMS

When a new employee is reported to KRS, an enrollment record is created. If the employee is a new member, KRS sends a welcome letter and issues a Personal Identification Number (PIN).

Once a new member has been reported by an employer, and contributions have posted to the account, KRS mails a Member Welcome letter which includes [Form 2035, Beneficiary Designation](#) and [Form 2001, Membership Information](#). The new member will receive their KRS PIN in a separate letter.

New members are assigned a Member ID that is included in their welcome letter and pre-populates on the enclosed forms. The PIN is used by the member or their representative to obtain information when contacting our office and to register for [Member Self Service](#).

New members should complete and submit the Form 2001 and Form 2035 to KRS. If there is not a valid Form 2035 on file, the member's estate is the default beneficiary.

ANNUAL STATEMENT

Prior to retirement, an Annual Statement for a member's account is available online through [Member Self Service](#). The Annual Statement provides a snapshot of the retirement benefits, contributions, interest and service accrued through the end of the fiscal year (June 30th). Members should always review their Annual Statements carefully to ensure the information is correct. Tier 3 members received their first Annual Statement in 2019.

SELF SERVICE



INTEREST

The interest credited to a member's account each June 30 and reported on the Annual Statement is calculated based upon the account balance at the end of the prior fiscal year. New members do not see interest credited in their first year since there is no prior year balance.

For **Tier 1** members, the interest paid is set by the Board of Trustees and will not be less than 2.0%; for **Tier 2** members interest will be credited at a rate of 2.5%.

Tier 3 members earn a base of 4% interest annually on both the member contributions and the Employer Pay Credit balance. Upside Sharing Interest is the additional interest credit that may be applied to a Tier 3 account. Upside Sharing Interest is not guaranteed. The following conditions must be met before Upside Sharing Interest is credited to a member's account:

- The system's geometric average net investment return for the last five years must exceed 4%.
- The member must have been active and contributing in the fiscal year.

REFUND OF ACCOUNT BALANCE

Upon termination of employment with all participating employers, a member has three options: (1) retire if eligible, (2) leave the contributions with KRS until they reach retirement eligibility or (3) take a refund of the account balance. An individual's options depend on the member's benefit tier:



[Read more about Tier 1 refund options](#)



[Read more about Tier 2 refund options](#)



[Read more about Tier 3 refund options](#)

In order to process a refund of employee contributions:

- The member must complete a [Form 4525, Application for Refund and Direct Rollover of Contributions](#), and
- The employer must report the member's employment end reason and employment end date on the monthly contribution detail report.

A refund cannot be issued until KRS has received all required information. Since contributions are reported to KRS on a monthly basis and wages are paid typically two to four weeks after termination, the refund process takes at least 45 days beyond the termination date.



SELF SERVICE



MEMBER SELF SERVICE

The Member Self Service website allows members to manage their retirement account and access benefit details online. Using Member Self Service, members can update their contact information, provide an email address, request an Account Balance Letter, view Annual Statements, and calculate estimates of retirement benefits and costs to purchase eligible service.

[Read more about Member Self Service.](#)

CONTACTING KRS

The KRS Call Center is staffed with retirement counselors who help members obtain services and answer questions. Counselors may provide specific information about a member's account over the phone if the member provides their KRS issued PIN and Member ID.

Any written inquiries should include:

- The member's name,
- Member ID,
- Home mailing address, and
- Signature.

Members may e-mail KRS with general questions. E-mail is not secure. We strongly recommend that e-mail be used for general inquiries only and that the sender not include information of a confidential or personal nature. Examples of information which **SHOULD NOT** be transmitted by e-mail include Social Security numbers, dates of birth, home addresses, telephone numbers, bank accounts and credit card information, mother's maiden name, medical information, and any information that an employee would not want a third party to discover. Employees should call or submit written requests for specific information.

EMPLOYER RESOURCES



Contact ERCE

DIVISION OF EMPLOYER REPORTING, COMPLIANCE AND EDUCATION

The Division of Employer Reporting, Compliance and Education (ERCE) has three teams to support employers based on reporting method:

- [File/Web Team](#) - Supports county employers, local government employers and quasi-governmental employers.
- [KHRIS Team](#) - Supports employers included on the Personnel Cabinet's monthly retirement file.
- [School Board Team](#) - Supports all county and independent school boards.

In addition, ERCE established a Quality Assurance and Outreach Team in 2019. This team is responsible for providing employer training resources. This team also assists with internal testing and support required for all employer processes, including those impacted by special business and technology projects.

The [File Web Team](#), [KHRIS Team](#), and [School Board Team](#) can assist employers with questions about reporting, compliance, error resolution and other agency needs, such as training requests. Please contact your ERCE representative with any questions.

KRS WEBSITE

Employers have many resources on the KRS website at <https://kyret.ky.gov>. You can quickly navigate to the Employers section of our site by using the menu at the top or click on any link under Employers to go directly to a featured page. The **LOGIN** button at the top of the screen takes you to the [Employer Self Service \(ESS\)](#) login with just two clicks.

Check our website regularly for the latest employer news and training opportunities. You can also find [employer forms](#), [contribution rates](#), and [videos](#). The members section of the website has similar resources for employees.



VIDEOS



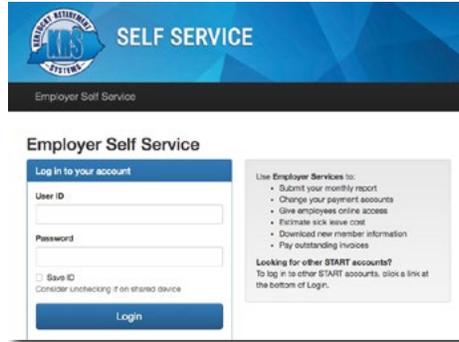
ESS

Employer Self Service SELF SERVICE



EMPLOYER SELF SERVICE

The ESS website is used for monthly reporting and provides several additional resources. Employers can find an employee's participation date, calculate sick leave costs, report a death, register for seminars and submit forms online. Your Employer Administrator grants access for ESS users. There is no limit to the number of users each employer may set up. Once added as a user, you will be assigned a User ID, a password and a PIN.



EMPLOYER PIN

The employer PIN is required when contacting KRS by phone and for certain transactions on ESS. The employer PIN serves as an additional security feature to protect your agency and your employees.



READ MORE

Chapter 3 ESS Setup & Maintenance

Read [Chapter 3](#) to learn more about ESS Account Setup and Maintenance.

SECURE EMAIL

KRS is a covered entity under the Health Insurance Portability and Accountability Act (HIPAA) and the Health Information Technology for Economic and Clinical Health (HITECH). Additionally, KRS is required by state law to maintain its members' account information and sensitive personal information in a confidential and secure manner. Accordingly, KRS policy requires participating employers to use its secure email portal when emailing confidential and/or sensitive information, especially protected health information, to KRS. The portal can be accessed at:

<https://web1.zixmail.net/s/login?b=kyret>

The portal uses strong encryption to safeguard the confidentiality of email communications and greatly reduces the risk of costly disclosures that could put our members at risk of identity theft and other fraudulent activity.

Always use the portal when sending a confidential email to KRS that contains sensitive data including, but not limited to, Social Security numbers, KRS Member IDs, KRS PINs, or any personally identifiable or health-related data. Never send confidential or sensitive personal information outside of the secure email portal. Confidential information sent in an unsecure email is an unauthorized disclosure of sensitive member information and KRS or the agency responsible is required to notify the affected member(s) of the disclosure.

Please note that the portal should NOT be used for monthly reporting.

The [Secure Email Portal User Manual](#) provides step-by-step instructions for using the portal.

 **PDF LINK**
[Secure Email
Portal User
Manual](#)

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