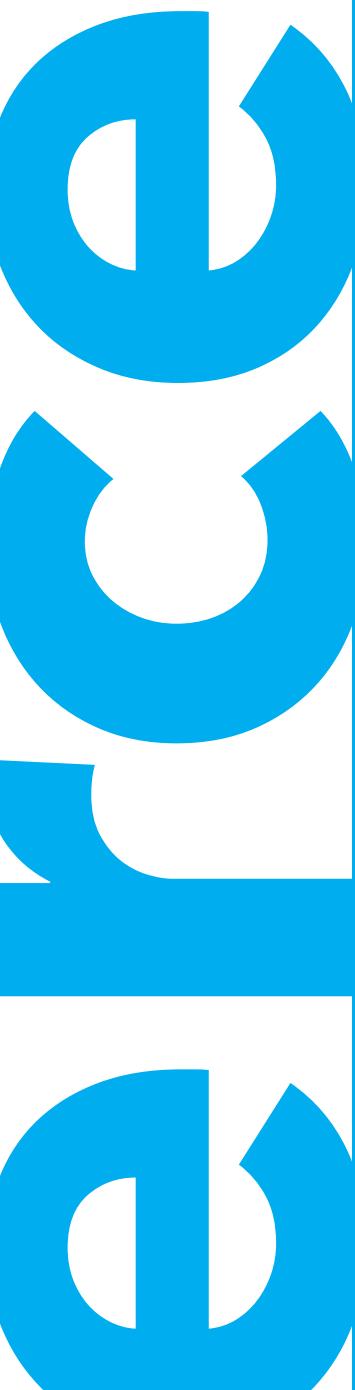




**KPPA**  
Kentucky Public Pensions Authority

# EMPLOYER REPORTING MANUAL

EMPLOYER REPORTING, COMPLIANCE & EDUCATION



# CHAPTER 1

## KPPA Information

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## PLAN ADMINISTRATION

The Commonwealth of Kentucky provides retirement benefits for most state and county employees through Kentucky Public Pensions Authority (KPPA), which operates 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.

CERS is governed by the CERS Board of Trustees established pursuant to [Kentucky Revised Statute 78.782](#). KERS and SPRS are governed by the Kentucky Retirement Systems (KRS) Board of Trustees established pursuant to [Kentucky Revised Statute 61.645](#).

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

An Executive Director oversees KPPA and works closely with the KRS and CERS Boards. [Learn more about KPPA and the systems it operates.](#)

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.](#)

### LAWS AND REGULATIONS

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



Kentucky law provides for three benefit tiers based on participation date. Participation date is when a member began paying contributions and earning service credit with a state-administered retirement system. 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)

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**



[KRS 61.510 - 61.705](#)

[KRS 78.510 - 78.852](#)

[KRS 16.505 - 16.652](#)



[KAR Title 105](#)

**HICON**  
**Health Insurance**  
**Contribution**



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

## PLAN FUNDING

**Benefits are funded through three sources:**

1. Employee contributions deducted from an employee's creditable compensation,
2. Employer contributions paid by each participating agency, 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
<b>Tier 1</b>	Prior to 9/1/08	<b>Without HICON</b> NHAZ 5%; HAZ 8%
<b>Tier 2</b>	9/1/08 - 12/31/13	<b>With HICON</b> NHAZ 5% + 1% HICON HAZ 8% + 1% HICON
<b>Tier 3</b>	1/1/14 and after	<b>With HICON</b> 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](#)

[KRS 78.5536](#)

[KRS 78.635](#)



[READ MORE](#)

[Chapter 2:  
Employee  
Reporting](#)

## EMPLOYER CONTRIBUTIONS

Recommended employer contribution rates are determined by KPPA's independent actuary based on data in the annual actuarial valuation. The CERS and KRS Boards of Trustees adopt employer contribution rates necessary for the actuarial soundness of the systems governed by the respective boards as required by [Kentucky Revised Statutes 61.565, 61.702, 78.5536, and 78.635](#). KERS and SPRS employer rates are subject to approval by the Kentucky General Assembly through the adoption of the biennial Executive Branch Budget. The CERS Board sets CERS contribution rates, unless altered by legislation enacted by the General Assembly.

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



Effective July 1, 2021, KERS Nonhazardous employer contributions include an additional amount based on the unfunded liability. [Read more about historical and current employer contribution rates.](#)

## DEPOSIT OF EMPLOYER CONTRIBUTIONS

Employer contributions are used to pay monthly benefits and to fund 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 KPPA.*

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, KPPA will facilitate the determination of 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 KPPA. Lump sum payments for unused sick leave when an employee terminates may only be reported to KPPA if the agency participates in the CERS 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 September 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, KPPA 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.



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



[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.

### MEMBER FORMS

**PIN**  
Personal  
Identification  
Number



**MEMBER FORMS**  
[Form 2035](#)  
[Form 2001](#)

When a new employee is reported to KPPA, an enrollment record is created. If the employee is a new member, KPPA 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, KPPA mails a Member Welcome letter which includes [Form 2035](#), [Beneficiary Designation](#) and [Form 2001, Membership Information](#). The new member will receive their KPPA 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 KPPA.



If there is not a valid Form 2035 on file with KPPA prior to the member's death, the member's estate is the default beneficiary. For this reason, employers should not hold beneficiary forms in an employee's personnel file.

If the member provides a Form 2035 to their employer, the employer should forward the form to KPPA immediately upon receipt. The member may change the beneficiary of their retirement account at any point during their employment by submitting a new Form 2035 to KPPA.

**SELF SERVICE**  
A blue rectangular button with the word "LOGIN" in white capital letters and a small circular arrow icon to the right.

### 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.

## 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 CERS and KRS Boards of Trustees for the systems governed by the respective boards 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 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.



The employee must terminate employment and have a separation from service to be eligible for a refund. If there is any doubt, please contact your ERCE representative.



A refund cannot be issued until KPPA has received all required information. Since contributions are reported to KPPA 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

LOGIN 

### 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:

- Maintain contact information
- Upload documents
- View Annual Statements
- Calculate retirement estimates
- Calculate potential costs of service purchases
- Register for seminars
- Access the secure message center
- Apply for retirement
- Enroll in health insurance at retirement



READ MORE

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

### CONTACTING KPPA

The KPPA 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 KPPA issued PIN and Member ID.



**Any written inquiries should include:**

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

Members may email KPPA with general questions. Email is not secure. We strongly recommend that email 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 email 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



### 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.

### KPPA WEBSITE

Employers have many resources on the KPPA 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.

A screenshot of the KPPA website homepage. At the top, there is a navigation bar with links for Members, Retirees, Employers (which is highlighted with a yellow box), Investments, Publications &amp; Forms, About, Legislative Updates, and Contact. To the right of the navigation is a search bar and a blue "LOGIN" button. The main content area features a large image of the Kentucky state capitol building. Overlaid on the image is text about the Spring 2021 edition of PENSION INSIGHTS, the official newsletter for members and retirees. Below this, there is a summary of the newsletter's contents and a "READ MORE" button. At the bottom of the page, there are three columns: "Members" (with links to Ready to Retire, What Tier Am I?, Disability Benefits, and Managing Your Retirement Account), "Retirees" (with links to Receiving Your Benefits, Marital Status Change, Reemployment After Retirement, and Insurance), and "Employers" (with links to Contribution Rates, Employer Reporting Manual, Reemployment, and Reporting Officials). The "Employers" column is also highlighted with a yellow box.

**ESS**  
**Employer**  
**Self**  
**Service**  
**SELF SERVICE**

**LOGIN**



**Chapter 3**  
**ESS Setup &**  
**Maintenance**

## **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 Self Service

- Use Employer Services to:
- Submit your monthly report
  - Change your payment accounts
  - Give employees online access
  - Estimate sick leave cost
  - Download new member information
  - Pay outstanding invoices

## **EMPLOYER PIN**

The employer PIN is required when contacting KPPA 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 [Chapter 3](#) to learn more about ESS Account Setup and Maintenance.

## **SECURE EMAIL**

KPPA 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, KPPA is required by state law to maintain its members' account information and sensitive personal information in a confidential and secure manner. Accordingly, KPPA policy requires participating employers to use its secure email portal when emailing confidential and/or sensitive information, especially protected health information, to KPPA. 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 KPPA that contains sensitive data including, but not limited to, Social Security numbers, KPPA Member IDs, KPPA 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 KPPA 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 subject line of portal email is NOT encrypted; therefore, DO NOT type Social Security numbers, KPPA Member IDs, or other confidential information in the subject line.

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

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