Completing the

QUARTERLY REPORT OF CONTRIBUTIONS (ROC)

Prepared by:

State of New Jersey
Department of the Treasury
DIVISION OF PENSIONS AND BENEFITS
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SP-0201-0102q

COLUMNAR EXPLANATION OF THE QUARTERLY REPORT

as of January 1, 2002

PROJECTED SALARY FOR NEXT QUARTER (Column 1)

The column headed 'Projected Salary for Next Quarter' (Column 1) is used to provide this Division with changes to base salaries that will affect your next Quarterly Report. When you insert figures in Column 1, your next Report will have the corrected salary printed in the 'Base Salary Subject to Contributions This Quarter' column; the corresponding contributions due will be calculated on this salary. Effective use of the 'Projected Salary for Next Quarter' column will help you avoid numerous changes to your next Report of Contributions.

You should insert figures in Column 1 only when the following quarters base salary will change from the base salary being reported for the current quarter. If the base salary increase is retroactive to a prior quarter(s), indicate in Column 1 the sum of the new quarterly base salary plus the retroactive salary for the prior quarter(s). This must be one combined total.

Even though you may provide updated salary information in Column 1, when a change is made to the line item of a member, an appropriate explanation must be provided in the 'Remarks Column.'

NAME AND MEMBERSHIP NUMBER (Column 2)

The name field lists members in alphabetical order by last name. Some names may be shortened because the total name field is limited to 14 characters. The membership number, shown under each person's name, is assigned to the member when enrolled in the retirement system. For multiple members, the member's multiple letter will be printed to the right of the membership number in this column.

In the Police and Firemen's Retirement System, the letter "P" for policeman or "F" for fireman will be printed in this column to the right of the membership number.

10/12 MONTH MEMBER (Column 3)

This column shows either '10' or '12' indicating if the member is paid 10 or 12 months per year. A 10-month employee is presumed to earn one-tenth of their annual base salary in each of the months September to June, inclusive.

A 10-month member who is on a 'Summer Payment Plan,' whereby part of each pay is placed into an Escrow Account to be available for payment to the member during the following July and August, still must be reported as a 10-month employee. One-tenth of the contractual salary for each month from September of one year through June of the following year should be shown on the Report of Contributions.

For example, the monthly calculation for a 10-month member who is on the 'Summer Payment Plan' (September 2002 through June 2003) is as shown in Chart A.

CHART A

	For ROC Purposes	For Payroll Purposes
Contractual Salary	$24,000	$24,000
Number of Months	10	12
Monthly Base Salary	$ 2,400	$ 2,000

**Note that the 'Summer Payment Plan' actual payroll salary payments made in July and August 2002 of $2,000 each should not be reported on the third quarter 2002 ROC.*

The total base salary for each quarter to be reported in Column 6 of the ROC is as shown in Chart B on page 4.

Even though only one month's salary is reported in the third quarter 1998, the member receives three months service credit.

ACCUMULATED BASE SALARY (Column 4)

This column reflects the accumulated base salary reported for prior quarters. For example, the third quarter ROC accumulated base salary would be the sum of the base salaries reported on the 1st and 2nd Quarterly Reports. Similarly, the 1st Quarterly Report will report zero accumulated contributions for all members.

CHART B

3rd Quarter 2002	4th Quarter 2002	1st Quarter 2002	2nd Quarter 2002
$2,400	$7,200	$7,200	$7,200

MONTHS OF SERVICE (Column 5)

This column should reflect the number of months during which the member has made contributions during the quarter being reported. The Division of Pensions and Benefits will only credit a member's account for FULL months of service and base salary. For example: if a member works 2 1/2 months in a quarter and earns sufficient money to pay the full third month's pension contribution, the employer is required to withhold and report the full quarterly amount due for base wage, pension contributions and contributory insurance (if applicable). In this example, three months of service and base wages would be reported.

> ***NOTE:*** if a member does not earn sufficient net salary to pay a full month's pension contribution and contributory insurance (if applicable), DO NOT REMIT A PORTION OR PARTIAL PAYMENT. In such cases, the partial amount should be refunded directly to the member, the member should not be reported for that month, and no service will be credited for that month.

REMEMBER — full payment is required in order for the Division of Pensions and Benefits to properly credit the member's account. PARTIAL PAYMENTS FOR SERVICE CREDIT CAN NOT BE ACCEPTED.

A number of employers properly change the ROC for base salary, pension contributions and contributory insurance, but fail to change the months of service. Please remember there is always a direct correlation between base salary and months of service. In all cases, a change in months of service and base salary will require a corresponding change to pension contributions.

A 10-month member, who is reported for the month of September on the 3rd quarter report, will receive three months of pension service credit. For new enrollees and transfers, the number of months in Column 5 represents the total months from the date all deductions are scheduled to begin to the end of the calendar quarter in which the member was certified for deductions.

BASE SALARY SUBJECT TO CONTRIBUTIONS THIS QUARTER (Column 6)

Base salary is the contractual salary of the member including the value of maintenance.

BASE SALARY **DOES NOT** INCLUDE bonuses, overtime pay or extra pay for extra services such as coaching, department head, summer school work or longevity pay given in a lump sum, terminal accumulated sick leave or vacation pay given in a lump sum.

BASE SALARY **DOES NOT** INCLUDE extraordinary increases in salary in anticipation of a member's retirement or death.

BASE SALARY **DOES NOT** INCLUDE additional remuneration for holiday or vacation work, or for performing temporary or extracurricular duties beyond the regular workday or the regular work year.

The reported base salary is the salary on which pension deductions are reported and, if applicable, contributory life insurance premiums. (See page 7 for computation for SACT and Tax-Sheltered Supplemental Annuity.)

Whenever base salary changes during a quarter, the printed amount on the ROC should be changed to reflect the correct base wages for the quarter. Do not change base salary (Column 6) for a partial month absence.

For a discussion of retroactive pay and reporting base salary for part-time employees, see page 11.

FULL RATE % (Column 7)

Effective July 1, 1995 the 2% reduction in the pension rate of contribution until the member reached the maximum wages covered by Social Security was eliminated. Between July 1, 1996 and December 31, 1997 all members contributed at a flat 5% of salary.

Effective January 1, 1998 and continuing through December 31, 1999, all members contributed at a flat, discounted rate of 4.50% of base salary.

Effective January 1, 2000 and continuing through December 31, 2002, all members of PERS will contribute a flat, discounted rate of 3.00% of base salary.

The full pension rate for PFRS members continues at 8.5% of base salary. The PFRS contribution rate has not been discounted.

Members of TPAF have been contributing a flat, discounted rate of 3.0% since January 1, 2002 and will continue to do so through December 31, 2002.

The State Treasurer is authorized to make similar reductions in the contribution rates in the future provided proper conditions exist.

NORMAL PENSION CONTRIBUTION (Column 8)

The normal pension contribution is the mandatory regular deduction for the cost of current service credit. For members of TPAF and PERS, the pension contribution is computed by multiplying the base salary in Column 6 times the contribution rate in force.

- For members of PERS, base salary is multiplied by 3.00% through calendar year 2002.
- For member of TPAF, base salary is multiplied by 3.0% through 2002.
- For members of PFRS, base salary is multiplied by 8.50% to arrive at the contribution amount.

Normal pension contributions are subject to the provision of the Internal Revenue Code (IRC) Section 414(h). For a discussion of IRC Section 414(h) and its affect on pensions, see page 11.

BACK DEDUCTIONS (Column 9)

Back deductions are mandatory pension contributions subject to Section 414(h). They are the pension obligations owed from the date of enrollment or transfer to the date deductions are certified to begin.

The **'No. Pmts.'** represents the number of outstanding back deductions due as of the beginning of the calendar quarter.

The **'Amount'** is the value of back deductions scheduled to be paid for the quarter in accordance with the Certification of Payroll Deductions.

BACK DEDUCTIONS MUST BE PAID EXACTLY AS CERTIFIED, or the entire back deduction may be paid in a lump sum with appropriate comments in the 'Remarks' column of the ROC. For a discussion of paying back deductions in full, see page 12.

TOTAL NORMAL PENSION CONTRIBUTION AND BACK DEDUCTIONS (Column 10)

This is the total mandatory pension deduction due for the quarter that is computed by adding Columns 8 and 9. Mandatory pension contributions are subject to the provision of IRC Section 414(h).

LOAN DEDUCTIONS (Column 11)

Loan deductions **'No. Pmts.'** represents the number of outstanding loan payments as of the beginning of the calendar quarter. The loan **'Amount'** is the loan payment scheduled to be remitted for the quarter in accordance with the *'Loan Certification of Payroll Deductions'.*

THE REPAYMENT OF THE LOAN IS PROJECTED ON THE QUARTERLY REPORT AND SHOULD NOT BE CHANGED. The loan must be repaid in the exact monthly amount certified. The only time the amount may be changed is in the case of a member who was absent for one or more months of the quarter and received no pay from which to make a loan deduction. In this case, the amount may be changed to one loan payment if the employee worked one month or two loan payments if the employee worked two months in the quarter. Columns 5 and 6 of the Quarterly Report would also have to be changed in these instances to reflect one or two months of service credit and one or two months of base salary.

Pension contributions in Columns 8 and 10 and contributory insurance, if applicable, will also be affected.

An active member may, at any time, make a lump-sum payment against the total value of the loan obligation in order to terminate payroll deductions. If a member wishes to terminate a loan obligation, the Office of Client Services must be contacted (609-292-7524) in order to determine the present value of the loan as of the date the member intends to forward a lump-sum payment. A 'pay-off' letter obtained from the Office of Client Services must accompany each lump-sum payment.

Because the reduction in contribution rates for PERS and TPAF to 3.0% are temporary reductions, the minimum repayments for pension loans will not change. The minimum deduction for the single payment value will continue to be computed on 5% of the monthly base salary.

TOTAL ARREARS AND/OR PURCHASES (Column 12)

Total arrears and/or purchases result when a member voluntarily purchases service credit (as opposed to mandatory service) such as the purchase of temporary service, military service, out-of-state service, etc.

The **'No. Pmts.'** represents the number of outstanding arrears payments due as of the beginning of the quarter. The arrears **'Amount'** is the arrears payments to be made in accordance with the *Arrears Certification of Payroll Deductions* for the entire quarter.

Changes may be made only if the member is absent for one or more months during the quarter. In that case, the ROC is appropriately changed to reflect the corresponding changes for the number of months the member was actively employed. The provisions of IRC Section 414(h) are not applicable to voluntary purchases of service.

Because the change in contribution rate for PERS and TPAF to 4.50% is a temporary reduction, the minimum deduction for the purchase of service credit will not change. The minimum deduction for the single payment value on arrears and purchases will continue to be based on 5% of monthly base salary.

CONTRIBUTORY INSURANCE (Column 13)

An amount will appear in this column for each member of the TPAF and PERS covered under the Contributory Group Life Insurance Program. The amount is a percentage of the base salary printed in Column 6: 0.4% (.004) for members of TPAF and 0.5% (.005) for members of PERS.

For new enrollees and transfers, the contributory insurance amount printed on the report represents all premiums due from the contributory insurance effective date (as shown on the Certification) to the end of the quarter in which the member's name first appears on the Report of Contributions.

Membership in the Contributory Group Life Insurance Program is compulsory for the majority of new members of the PERS and TPAF for the first year. To terminate membership in this program, a member and employer must sign the *'Notice of Withdrawal from Contributory Group Life Insurance'* form and file it with the Division of Pensions and Benefits. The completed form must be in the possession of the Division on or before the day termination is to be effective, which can only be the last day of a calendar month.

SUPPLEMENTAL ANNUITY (Column 14)

Column 14 shows the type, percentage and amount (in whole dollars) allocated to the Supplemental Annuity Collective Trust (SACT). The first column will show either **'SA'** representing contributions to regular SACT or **'TS'** representing contributions to the SACT-Tax Sheltered.

The second column, in which the Supplemental Annuity percentage **(%)** is shown, SHOULD NOT BE DELETED OR ALTERED by the member's employer since the changes MUST BE CERTIFIED BY THE DIVISION OF PENSIONS AND BENEFITS.

The third column contains the dollar **'Amount'** allocated to the Trust during the period covered by the Report. This column must be changed whenever a change occurs in salary. The following formulas are to be used to determine the amount to be withheld:

Regular SACT (SA) – Base Salary (Col. 6) times Percentage (Col. 14) equals SACT Amount (Col. 14).

Tax-Sheltered SACT (TS) – Base Salary Subject to Contributions this Quarter (Col. 6) LESS Total Normal Pension and Back Deductions (Col. 10) EQUALS Salary Subject to Tax Sheltered Annuity.

Salary Subject to Tax Sheltered Annuity MULTIPLIED BY member's Tax Sheltered Annuity Percentage Rate (Col. 14) EQUALS Tax Sheltered Annuity Contribution Due (Col. 14).

When the amount is determined, it should be rounded to the nearest whole dollar. For example, if the calculation results in an amount of $0.50 or more, increase the amount to the next highest dollar. If the calculation results in an amount of $0.49 or less, drop the cents and report only the dollar amount.

SACT and Tax-Sheltered SACT page totals and grand totals must be maintained separately. The Supplemental Annuity total block is divided into two sections: block J for regular SACT and block K for Tax-Sheltered SACT.

REMARKS (Column 15)

THIS COLUMN IS USED TO FULLY EXPLAIN THE REASON AND NATURE OF ANY CHANGES MADE TO THE ROC. For example, if a member terminates employment, make any necessary corrections to the ROC and note in the 'Remarks' column that the member resigned and the date employment terminated. If a member is on a leave of absence, indicate the beginning date of the leave and the specific reason for the leave. If a member has a change in base salary, Column 15 should contain the effective date of the change.

PAGE TOTALS AND GRAND TOTALS (Blocks A-K)

The page and grand total blocks correspond to the columns noted. Whenever a change occurs on an individual member line item, (e.g. months of service, base salary, pension contributions, total pension contributions, back deductions, and contributory insurance) this will have a corresponding effect on the page total blocks. It will effect the grand totals of the entire report as shown on the last page of the report.

Certifying Officers are reminded of the importance of crosschecking page totals and grand totals. This will ensure that the proper amount of monies are remitted and will save time and effort of the local employer as well as the Division of Pensions and Benefits.

MISCELLANEOUS

CHANGES TO ROC

All changes to the Report must be made in ink. Please do not use a typewriter or pencil.

ADDRESS AND TELEPHONE NUMBER CHANGES

If your location has an address, telephone and/or certifying officer change, please notify the Office of Client Services in writing. The correct mailing address is necessary to avoid the ROC being received late or not at all.

REPORTING DUE DATE

The Report of Contributions is due in the Division of Pensions and Benefits on the 10th day of the month following the close of the calendar quarter. For example, at the end of the second quarter, the ROC is due July 10th.

If your quarterly Report and total contributions are not received in a timely manner, we cannot update the pension accounts of your employees. This may adversely affect any claim for benefits, including loan applications, filed by your employees. Also, any delay affects our scheduling in posting contributions to all members' accounts, as well as the mailing of Reports of Contributions for the following quarter. Interest will be assessed, as prescribed by statute and administrative code, when monthly transmittal remittances and the quarterly Report of Contributions are not received within fifteen days of the due dates.

SIGNATURE OF CERTIFYING OFFICER

The Certifying Officer is responsible for reviewing the completeness and accuracy of the ROC and cash remittances. The Certifying Officer should follow whatever procedures seem reasonable or prudent under the circumstances. Once satisfied that the control figures and cash remittance amounts are correct, the Certifying Officer must sign the report. Not every page needs to be signed. It is sufficient to sign the first and last page of the ROC.

CASH REMITTANCES

Through the Transmittal Electronic Payments System (TEPS), employers must submit monthly transmittal remittances of approximately 1/3 of the total quarterly amounts due. Token payments are not acceptable. The transmittal remittance for the last month of each calendar quarter (March, June, September and December), which represents the deductions due for the balance of the quarter, should be made through TEPS. The portion of the remittance for total pension deduction should reflect the sum of normal pension contributions, back deductions, loan payments, and arrears/purchase deductions.

TEPS was developed for the convenience of local employers to electronically transmit pension contributions, contributory group life insurance premiums and SACT monies to the Division of Pensions and Benefits.

CHANGING BANKING INFORMATION FOR TEPS

Notice of Changes for TEPS should be submitted to the Division of Pensions and Benefits on or after the date that the new checking account information becomes effective. Every Notice of Change is "prenoted" to ensure that the Division has the correct banking information. A Division representative will only contact you if the new banking information fails the prenote. Prenoting takes ten business days. It is recommended that you resume using TEPS ten to twelve business days from the date you submitted the form.

Exception for SACT-Tax Sheltered: According to recent legislation, Chapter 247, Public Law of 1999, approved October 15, 1999, all amounts payable on IRC 403(b) accounts must be transmitted and credited as of the fifth business day after the date on which the employee is paid for that pay period. This will hold for all 403(b) plans whether administered by the Division of Pensions and Benefits (SACT) or a plan administered by the local employer.

Therefore, all SACT-Tax Sheltered contributions must be submitted by TEPS on a timely basis dependent upon your location's payroll schedule, rather than the regular monthly payment schedule used in the past.

TEPS ENHANCEMENTS

As of September 1, 1999, employers are allowed to pay Transmittal Shortage Statements through TEPS. The Division sends transmittal shortage statements when the sum of the transmittal remittances does not equal the due figure on the quarterly Report of Contributions.

Transmittal shortage statement payments can only be paid through TEPS. Checks received for payment of transmittal shortages will be returned. If you have questions related to TEPS, contact the TEPS Helpline at (888) 835-3345 or FAX your inquiries to the Audit/Billing Section at (609) 633-1708.

QUARTERLY TRANSMITTAL SUMMARY RECONCILIATIONS

The ROC is submitted quarterly and monies due are remitted monthly.

The quarterly transmittal summary form is only submitted at the end of a quarter and will assist you in reconciling and determining the proper remittance amount. Instructions for its completion are on the back of the form. The main point to remember is that the quarterly liability for pension contributions, contributory insurance, supplemental annuity and tax-sheltered annuity are determined by completing the quarterly Report of Contributions (ROC). From the ROC due figures, cash remittances for the first and second months of the quarter are subtracted, resulting in the balance due.

THE CERTIFYING OFFICER MUST SIGN THE ROC AND THE TRANSMITTAL SUMMARY.

LEAVES OF ABSENCE AND/OR TERMINATION OF EMPLOYMENT

If a member goes on leave of absence or terminates employment (but does not terminate membership in the system) and returns to the same employer within two years, the member's name, membership number and complete line entry should be written on the ROC with an appropriate statement in the **'Remarks'** column.

If a member goes on leave of absence or terminates employment (but not pension membership) and returns to the same employer after two years, a new enrollment form must be submitted for the member and deductions will not begin until a *'Certification of Payroll Deductions'* is received.

If a member goes on leave of absence or terminates employment (but not pension membership) and returns to work with a different employer within two years, a "Report of Transfer" form must be submitted for the member and deductions will not begin until a 'Certification of Payroll Deductions' is received.

RETROACTIVE SALARY

Some employers fail to include retroactive salary covering base salary paid for prior quarter(s). The retroactive salary should be included as part of the quarterly salary reported in Column 6, **'Base Salary Subject to Contributions this Quarter.'** The new quarterly salary should be noted in Column 1 and the effective date noted in the 'Remarks' column so that the Division of Pensions and Benefits may properly project the new quarterly salary on the next ROC. This will eliminate the necessity for making numerous manual changes on the ROC. Effectively communicating salary projections is a very effective timesaving device for both your office and the Division.

In the event of a retroactive salary increase, change Column 6 to reflect the combined total of:

(a) the new salary for the quarter, PLUS

(b) the additional base salary paid for the retroactive period.

Retroactive salary increases must be reported the quarter in which they are paid.

For example, assume on August 1st a 12-month member receives an increase in contractual base salary from $22,800 to $24,000 retroactive to January 1st of that year. The printed base salary on the 3rd quarter Report of $5,700 ($22,800 divided 4) should be changed to $6,600, which is calculated as shown in Chart C.

CHART C

	New Monthly Salary		$ 2,000	(24,000/12)
-	Old Monthly Salary	-	$ 1,900	(22,800/12)
=	Retroactive Salary Per Month		$ 100	
x	Number of Months	x	7	
			$ 700	
+	3rd Quarter Salary	+	$ 5,900	($1,900 July; $2,000 for Aug. and Sept.)
=	Base Salary (Column 6)		$ 6,600	

Columns 8 and 10 (and 13, if the member has contributory group life insurance coverage) must be changed. In addition, the new quarterly base salary should be shown in Column 1 and the effective date of the salary change should be shown in the **'Remarks'** column.

REPORTING OR CERTIFYING SALARIES AT TIME OF RETIREMENT

All data requested on the Certification of Service and Final Salary should be completed. Any question left unanswered (like worker's compensation or suspension) will only delay the Retirement Bureau processing until the local employer responds in writing.

Section 8 of the form, *"Certification of Service and Final Salary – Retirement"* for PERS, TPAF, and PFRS asks for the base salary subject to pension fund contributions paid for the last full year of service. Please show the contractual base salary the member earned and the number of months at each salary. If a member received a retroactive salary increase in the last year of service, report the member's monthly base salary in this section as of the effective date of the salary increase – that is, as though the increase became effective as scheduled by the terms of the contract.

In Section 11 of the form, enter the full contractual salary as earned in each quarter. These figures would reflect the same information that has been or will be reported on the Quarterly Report of Contributions.

Section 10 is use to explain any retroactive salary increases and their effective dates. Remember that the more information you provide the better the Division of Pensions and Benefits can serve the retiring member.

Please be aware that local employers are expected to submit the *"Certification of Service and Final Salary"* as soon as possible after the *"Application for Retirement"* has been sent by the member. The Division of Pensions and Benefits requires three or four months to process, calculate, obtain board approval and authorize payment for a retired member. If the local employers wait to send the *'Certification of Service and Final Salary'* until after the member has been removed from the payroll, it will delay the entire process, including the issue of the member's first retirement allowance check.

REPORTING RETROACTIVE SALARY AFTER RETIREMENT

If a member receives a retroactive salary adjustment after retirement, DO NOT WRITE THE MEMBER'S NAME ON THE ROC. Complete a new *"Certification of Service and Final Salary"* and indicate that it is a retroactive adjustment after retirement by writing on the top of the Certification, "Revised Due to Retro." Deduct the pension contributions and contributory insurance, if applicable, from the retroactive check and remit the amount on behalf of the member to:

Division of Pensions and Benefits
Attn: Audit/Billing Section
PO Box 295
Trenton NJ 08625-0295

The "Revised Due to Retro" Certification need not be completed in its entirety. Employee name, membership number, Social Security number, employer, employer's telephone number, and date service terminated should be completed.

Section 8 may be left blank.

Section 10 should state the date and amount of the retroactive check, and the amount of the pension contribution. In addition, you should include the time period the retroactive salary adjustment covers and the adjusted annual contractual salary.

Section 11 should indicate the amount of the pension contribution from the retroactive salary payment.

Finally, the Certifying Officer must sign and date the form.

"REVISED" VS. "CORRECTED" CERTIFICATIONS

The Division of Pensions and Benefits would like local employers to differentiate between revised and corrected Certifications.

Revised certifications due to retroactive increases are explained above.

A corrected Certification due to an error in reporting or a typographical error should be marked "Corrected" on the top of the form. Please write directly on the Certification specifying which item(s) is being corrected.

REPORTING BASE SALARY FOR PART-TIME HOURLY EMPLOYEES

Effective January 1, 2000, the actual creditable salary earned by all PERS employees must be reported on the ROC. This changes the procedure used in the past to estimate salary for part-time hourly, on-call, and per diem employees. TPAF salaries are still reported based on estimates.

The new rule eliminates much of the guesswork that has been, but should not be, involved in the reporting of salaries. The rule ensures that pension contributions are based on actual earnings and service, not an estimate of earnings. Perhaps more importantly, it is fairer to members in that they get what they earned, ie., both in terms of pension benefits and in their regular paychecks. Your employees do not lose any portion of their checks by paying pension contributions for hours not worked and salary not earned during quarters when they work fewer hours than estimated.

It may facilitate the completion of your quarterly report for the Division of Pensions and Benefits to list your part-time, on-call and per diem members on a separate report, as though they work at a separate bureau. To have these members on your Report listed separately, please send your written request to:

Robert Morley
Audit/Billing Section
Division of Pensions and Benefits
PO Box 295
Trenton NJ 08625-0295

With your request, include a listing of the members to be on the separate Report. This listing must provide the member's membership number, last name and first name. In lieu of a manually prepared list, you can identify the members by sending a copy of you most recently filed quarterly Report and highlight the members for listing as part of a separate bureau.

MANDATORY PENSION CONTRIBUTIONS RELATING TO SECTION 414(h) OF THE INTERNAL REVENUE CODE

Legislation effective January 1, 1987 states that under Section 414(h) of the Internal Revenue Code, mandatory pension contributions reduce the member's gross wages for federal income tax. The mandatory deductions are normal pension contributions and back deductions.

Loan repayment, arrears and/or purchases are not mandatory contributions and do not affect an employee's gross wages for federal income tax purposes. Only mandatory pension contributions made for a period of time on or after the implementation date (January 1, 1987) are subject to the 414(h) provision.

SECTION 414(h) DOES NOT AFFECT SOCIAL SECURITY TAX LIABILITY OR GROSS TAXABLE WAGES SUBJECT TO NEW JERSEY STATE INCOME TAX

If an account requires an adjustment (for example as a result of litigation or a payroll error), the additional mandatory pension contributions to be billed or refunded are subject to Section 414(h) only if the adjustment or part of the adjustment is applicable to a period on or after January 1, 1987. The fact that the additional salary due the member was paid on or after January 1, 1987 is not significant. The determining factor is the period covered by the adjustment. Therefore, mandatory pension contributions due as a result of an adjustment for a period prior to January 1, 1987 are not subject to Section 414(h).

PENNY BREAKAGE

As a result of computation differences, the total deduction from a member's salary may differ from the quarterly printed amount by a few pennies. It may be possible to eliminate penny discrepancies by discussing these differences with your data processing personnel. Hopefully, this dialogue may lead to a solution.

It is requested that you do not change the ROC if the printed deduction differs from the payroll deduction by a few cents for individual members. Remit the printed amount. The overall difference will have a "wash" effect and the total amount will be minimal. Normally an accounting system provides for an over-and-under account for this type of adjustment.

BASE SALARY, QUARTERLY REPORTING

Although an employer pays employees weekly, biweekly or quarterly, base salaries must be reported on the Quarterly Report of Contributions and pension deductions must be computed on the basis of a 'quarterly' salary.

It is suggested that pension deductions, computed on the quarterly salary, be deducted from the employee's pay on only six biweekly payrolls in the quarter and that no pension deductions be made on the seventh biweekly payroll that falls in any calendar quarter.

MEMBER SHORTAGES AND OVERAGES

Occasionally, for various reasons, an employer may not make the correct amount of pension and/or contributory life insurance deductions. However, the employer submits the Report of Contributions knowing that an overpayment or underpayment exists. This should be avoided. In order to avoid unnecessary refund checks and shortage statements, it is suggested that local employers schedule their payroll deductions so that the correct deductions have been made and remitted in accordance with the base salary reported.

Member shortages and overages of previous quarters should not be included on the current ROC. The ROC should never be used as a means of adjusting payroll information previously submitted. Do not pay member shortages via the regular monthly transmittal of funds.

Shortages will be billed by the Division of Pensions and Benefits, and must be paid by separate check together with the *'Statement of Shortage'* form.

The *'Statement of Shortage'* form will indicate if the additional pension contributions being billed or the pension contributions being refunded are (or are not) subject to Section 414(h) provision. If the adjustment is subject to the 414(h) provision, it is the responsibility of the employer to make the proper adjustment on the payroll records to ensure the member receives a correct W-2 form.

The Division will refund overages.

> ***Note:*** All pension contributions billed or refunded that correct a period prior to January 1, 1987 are not subject to the 414(h) provision. The fact that the actual adjustment occurred after January 1, 1987 is not significant. Contributions due for loans, arrears and/or purchases are never subject to 414(h) treatment.

LUMP SUM PAYMENTS OF BACK DEDUCTIONS

Some members want to pay the back deduction obligation in a lump sum instead of having the obligation deducted from their paycheck. To pay the deductions in full, please comply with the following procedure. The employee should remit to the employer the full amount of the back deductions due. The employer includes this amount as part of the *'Total Pension Deductions'* on the next TEPS remittance. When the Report of Contributions is received, change the printed back deduction figure on the Report to the total of the back deductions. Column 10, **'Total Normal Pension Contributions and Back Deductions'** must be correct to equal the sum of Column 8, **'Normal Pension Contributions'** and Column 9, **'Back Deductions.'**

In some cases, back deductions contain interest. The cash discount value is provided on the certification for lump sum payments being made prior to the beginning date of deductions. If the member wants to liquidate a back deduction obligation with interest after payroll deductions have begun, a cash discount value must be obtained from our Adjustment Section.

Checks received directly from members to pay back deductions in full cannot be accepted. This payment must be remitted through the employer.

REPORT OF SALARY CHANGE

The *'Report of Salary Change'* form can be a very useful and timesaving tool for the employer when a large number of employees receive a salary change. If a majority of an employer's members receive a salary change, the *'Report of Salary Change'* form should be used.

When the employer provides the Division of Pensions and Benefits with timely *'Report of Salary Change,'* the employer will receive the next "Quarterly Report" with the new base salaries printed and used to compute the corresponding deductions. In that way, the employer will only have to adjust the Quarterly Report for exceptions, such as leaves of absence, terminations or returning members (assuming no additional changes to base salary).

The Division of Pensions and Benefits annually provides a *'Report of Salary Change'* to the employer based on the following schedule:

- PERS Non-Boards of Education for 1st quarter projection
- PERS Boards of Education for 3rd quarter projection
- TPAF for 3rd quarter projection

PFRS for 1st quarter projection

The report lists the employer's name and location number, employee membership number, employee name, method of payment (10 or 12 months) and a space for the employer to insert quarterly base salary for the upcoming quarter. The figure submitted on the *'Report of Salary Change'* should be the base salary subject to pension contributions that you want to appear on the Quarterly Report of Contributions in Column 6. An employer can obtain a *'Report of Salary Change'* for any quarter by contacting the Audit/Billing Section of the Division.

A *'Report of Salary Change'* may be filed with the Division of Pensions and Benefits during any quarter of the calendar year. For example, it can be used to indicate contract changes as soon as they are known. File the *'Report of Salary Change'* with the Division of Pensions and Benefits on or before the 10th day of the 2nd month of the quarter to assure the salary change is received in time for the upcoming Quarterly Report of Contributions. If the Report is not received by the Division in time, the employer must manually change the ROC for each member involved.

If an employer does not need to use the *'Report of Salary Change'* when it is received, the employer should save it for use in a future quarter. When used in a future quarter, the employer should change the heading to indicate the correct quarter for which the projections are being submitted.

Members should not be added to the *'Report of Salary Change'.*

In lieu of a *'Report of Salary Change'*, the employer may photocopy Columns 1 through 6 of the last ROC and block out the data appearing within Column 6. Write in the new quarterly base salary subject to pension contributions in Column 6. Clearly label, at the top of the form, that this is to be used as a salary projection and the quarter to which it pertains.

MEMBERS RECEIVING WORKERS' COMPENSATION WITHOUT PAY

The section of the New Jersey Administrative Code (NJAC 17:1-4.39) addressing the obligation of employers to remit pension contributions on behalf of employees with a workers' compensation award was recently amended. In April 1999 this office issued a memorandum to all certifying officers explaining the new code. It is recommended that you review your reporting policies for members who are receiving workers' compensation benefits to insure that your are in compliance with the revised reporting policies. If you need additional copies of this memorandum, please contact the Audit/Billing Section at (609) 984-4807.