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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Daren E. Duff
Executive Secretary

January 2, 1992

Board of Directors (Organization and Personnel Committee--Information)

General Manager

Social Security Coverage for Temporary Employees

Report

Last June, you were provided with information concerning regulations proposed by the Internal Revenue Service regarding Social Security coverage for certain public employees. Since that time, final regulations have been issued. The purpose of this letter is to provide updated information concerning the regulations, describe the actions Metropolitan has taken thus far in order to comply, and discuss possible future actions.

For regular District employees, membership in the Public Employees' Retirement System (PERS) satisfies the requirement for participation in a qualified retirement plan; therefore, Social Security taxes are not required for regular employees. However, for part-time, temporary, and seasonal employees, the regulations require a "nonforfeitable" contribution of 7.5 percent of covered wages. A nonforfeitable contribution is one which is available to the employee (or his/her survivors) as a cash refund upon termination or death. Some part-time or temporary District employees have qualified for membership in PERS, however, because the employee contribution to PERS is 7 percent, the requirement of a 7.5 percent nonforfeitable contribution (for part-time, seasonal, and temporary employees) is still not met. A special transition rule allows for contributions of 6 percent to satisfy the requirement for part-time, seasonal, and temporary employees until June 30, 1993, and the District has been using this rule for part-time and temporary employees who are PERS members.

Those part-time, seasonal, and temporary employees who do not qualify for PERS membership have been contributing 6.2 percent of their wages to Social Security since July 2, 1991, the effective date of the new regulations. The District has been matching those contributions. By July 1, 1993, all District employees who are part-time, temporary, or seasonal as defined in the Internal Revenue Code regulations must be covered by either Social Security or an acceptable alternative as

January 2, 1992

established by the Internal Revenue Service regardless of whether they also contribute to PERS.

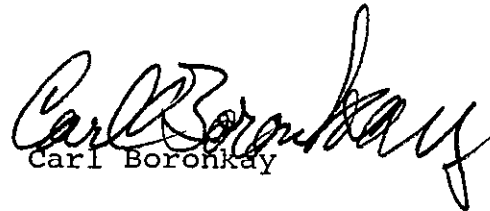
Of the options available to the District for coverage of these employees on and after July 1, 1993, two appear to have the greatest merit. The first option would be to begin deducting the required Social Security contribution of 6.2 percent. The District would be required to match this contribution. The second option would be to establish a defined contribution plan, such as a 457 Savings Plan, with a 7.5 percent contribution. The regulations allow for this contribution to be paid by the employee, the employer, or a portion paid by each. This plan could be negotiated with the Employees Association in early 1993.

Board Committee Assignment

This letter is referred for information to the Organization and Personnel Committee because of its responsibilities under Section 2471(c) of the Administrative Code to study, advise and make recommendations with regard to all matters affecting pension plans and other employee benefits, and other terms and conditions of employment.

Recommendation

For information only.


Carl Boronkay

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