



Agenda Item No. 1

To: Rules, Policy and Industrial Relations Committee/Committee of the Whole  
Meeting of May 13, 2005

From: Teri W. Mantony, Deputy General Manager Administration & Development  
Celia G. Kupersmith, General Manager

Subject: **APPROVE AMENDMENT TO CALPERS PENSION PLAN TO ALLOW  
EMPLOYEE TO PURCHASE SERVICE CREDIT ON A PRETAX BASIS**

**Recommendation**

The Rules, Policy and Industrial Relations Committee recommends that the Board of Directors authorize a resolution to allow employees enrolled in the California Public Employees' Retirement System (CalPERS) pension plan to purchase service credits and redeposit monies in the plan on a pretax basis through payroll deductions.

This matter will be presented to the Board of Directors at its May 13, 2005, meeting for appropriate action.

**Summary**

CalPERS, the pension plan in which most District employees participate, allows a participant to "buy" various types of service credit to enhance their retirement pension. These include but are not limited to prior service credit, military service credit, additional retirement service credit (new airtime option), and re-deposits of previously withdrawn member contributions. An employee also may make contributions for time missed during a long unpaid absence from work due to an industrial injury or long-term illness. Presently, these purchases can be done through payroll, but the employee does not have the advantage of doing them on a pretax basis.

In accordance with Section 414(h)(2) of the Internal Revenue Code (IRC), an employer may "pick up" member pension contributions and consider them employer contributions for tax reporting purposes, even though the contribution is funded by a deduction from the employee's salary/wages. This code section allows the employee to defer the income tax liability on the portion of salary/wages utilized for pension contributions until the pension benefit is distributed to the employee during retirement.

By filing a resolution with CalPERS, the District would also be allowed to extend IRC Section 414(h)(2) to employee service credit purchases also. This resolution would subsequently allow

employees to purchase member service credits on a tax-deferred basis. A copy of the resolution is attached.

**Fiscal Impact**

Service credit purchases are an elective benefit that is paid for at the employee's own expense. (NOTE: In the 2004 Union Coalition contract settlement, the District does pay a portion of an employee's expenses for service credit purchased due to an industrial injury.) The cost of offering this option would not increase costs to the District.

Attachment

ATTACHMENT

*Return to CalPERS – Unit 830*

Employer code: \_\_\_\_\_

**EMPLOYER PICKUP RESOLUTION  
PRE-TAX PAYROLL DEDUCTION PLAN  
FOR SERVICE CREDIT PURCHASES  
(CONTRIBUTION CODE 14)**

WHEREAS, the Board of Administration of the California Public Employees' Retirement System (CalPERS) at the April 1996 meeting approved a pre-tax payroll deduction plan for service credit purchases under Internal Revenue Code (IRC) section 414(h)(2); and

WHEREAS, the \_\_\_\_\_ (Employer) has the authority to implement the provisions of IRC section 414(h)(2) and has determined that even though implementation is not required by law, the tax benefit offered by this section should be provided to those employees who are members of CalPERS; and

WHEREAS, the \_\_\_\_\_ (Employer) elects to participate in the pre-tax payroll deduction plan for all employees in the following CalPERS coverage group(s):

[Membership Coverage Group(s)]

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

NOW, THEREFORE, BE IT RESOLVED:

1. That the \_\_\_\_\_ (Employer) will implement the provisions of IRC section 414(h)(2) by making employee contributions for service credit purchases pursuant to the California State Government Code on behalf of its employees who are members of CalPERS and who have made a binding irrevocable election to participate in the pre-tax payroll deduction plan. "Employee contributions" shall mean those contributions reported to CalPERS which are deducted from the salary of employees and are credited to individual employee accounts for service credit purchases, thereby resulting in tax deferral of employee contributions.
2. That the contributions made by the \_\_\_\_\_ (Employer) to CalPERS, although designated as employee contributions, are being paid by the \_\_\_\_\_ (Employer) in lieu of contributions by the employees who are members of CalPERS.
3. That the employees shall not have the option of choosing to receive the contributed amounts directly instead of having them paid by \_\_\_\_\_ (Employer) to CalPERS.
4. That the \_\_\_\_\_ (Employer) shall pay to CalPERS the contributions designated as employee contributions from the same source of funds as used in paying salary, thereby resulting in tax deferral of employee contributions.

5. That the effective date for commencement of the pre-tax payroll deduction plan cannot be any earlier than July 1, 1996, or the date the completed resolution is received and approved in CalPERS, whichever is later.
6. That the governing body of the \_\_\_\_\_ (Employer) shall participate in and adhere to requirements and restrictions of the pre-tax payroll deduction plan by reporting pre-tax payroll deductions when authorized by CalPERS for those employees of the above stated Coverage Group(s) who have elected to participate in this plan.

**PASSED AND ADOPTED** by the governing body of the \_\_\_\_\_ (Employer) this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ (year).

BY \_\_\_\_\_  
 (Signature of Official)  
 \_\_\_\_\_  
 (Title of Official)

**RETURN ADDRESS:**

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**FOR CalPERS USE ONLY**

**Pre-tax Payroll Deduction Plan Effective Date:**  
 \_\_\_\_\_

**Approved By:** \_\_\_\_\_ **Title:** \_\_\_\_\_

**MEMBER SERVICES DIVISION, Service Credit Section – Unit 830**