Pre-Tax Payroll Deduction Plan for Employees Choosing to Purchase CalPERS Service Credit

(Approval would allow employees the option to purchase service credit with pre-tax dollars for previous years they may have or could have worked for a public agency.)

RECOMMENDATION:

Council approve the Draft Resolution allowing pre-tax payroll deductions for California Public Employees Retirement System (CalPERS) service credit purchases.

DISCUSSION:

As a personal decision, employees may elect to pay on their own an extra amount to CalPERS to purchase additional service credit for previous years they may have or could have worked for a public agency. Unless specific action has been taken by the governing board, these additional contributions come after wages have been taxed.

There is an option that allows employee service credit to be purchased with pre-tax dollars. By filing the attached Resolution with CalPERS, employers are allowed to extend the pick-up of member contributions currently paid on a pre-tax basis under Internal Revenue Code section 414(h)(2) to member payments by payroll deductions for service credit purchases. Employers who opt to participate in this program provide their employees with the benefit of deferring income tax liability on service credit purchases.

There are several employees currently looking towards retirement who are interested in purchasing service credit. This action will allow them to make the purchase in a manner that has the least amount of financial impact them. This is an administrative change only and has no financial impact on the City.

FISCAL IMPACT:

All costs associated with additional service credit purchases are picked up by the employee.

ATTACHMENTS: Draft Resolution