



EMPLOYER SERVICES FACT SHEET

Pick-up of Employee Contributions

Federal tax law permits employers to pick up employee retirement contributions. There are no Ohio statutes or SERS rules governing the implementation of a Pick-up Plan of mandatory employee contributions.

It is the employer's responsibility to comply with Code §414(h)(2) and for accurate reporting of contributions on Forms W-2. Failure by an employer to implement a valid pick-up arrangement or to report incorrectly may result in the IRS treating contributions as taxable income to employees.

The earliest effective date of a Pick-up Plan is the date of a board action implementing or changing the Pick-up Plan. Retroactive implementations are not permitted pursuant to IRS guidelines.

Under a Pick-up Plan, the employee contributions picked up by an employer are:

- Tax-deferred for federal income taxation purposes until the member receives the contributions in the form of a refund or retirement benefit
- Designated as employee contributions and refundable to the member for retirement system purposes
- An employer should contact local taxing authorities to determine the tax treatment of a Pick-up Plan for city or other local income taxation

There are three Pick-up Plan methods: salary reduction, fringe benefit not included in compensation, and fringe benefit included in compensation, which is also referred to as the pick-up on pick-up.

Pick-up Plan Methods

Salary Reduction

Contributions are deducted from the employee's salary, but are deferred for federal and state income tax purposes.

<i>Example:</i>	Salary:	\$20,000
	SERS' contribution:	\$ 2,000
	Take home pay:	\$18,000
	Taxable income:	\$18,000
	Reported to SERS:	\$20,000

Contributions must be reported as tax-deferred on SERS monthly contribution reports.

Fringe Benefit not Included in Compensation

All or a portion of the employee contributions are paid by the employer out of the employer's funds not deducted from the employee's salary.

<i>Example:</i>	Salary:	\$20,000
	SERS' contribution:	\$ 2,000
	Take home pay:	\$20,000
	Taxable income:	\$20,000
	Reported to SERS:	\$20,000

Contributions must be reported as tax-deferred on SERS monthly contribution reports.

Fringe Benefit Included in Compensation, or Pick-up on Pick-up

All or a portion of the employee contributions are paid by the employer as well as an additional contribution on the 10%. This plan provides for a higher salary for retirement purposes only, which will affect the pension amount. A fringe benefit included in compensation is often referred to as a "pick up on pick-up" plan.

<i>Example:</i>	Salary:	\$20,000
	SERS contribution (10%):	\$ 2,000
	Salary for retirement purposes:	\$22,000
	Total member contribution due:	\$ 2,200 (10% of \$22,000)
	Take-home pay:	\$20,000
	Taxable income:	\$20,000

Contributions must be reported as tax-deferred on SERS monthly contribution reports.

Steps to take when the Board chooses to implement a pick-up plan:

Step 1: Draft a Board Resolution to be adopted by the school board or governing body.

To implement a Pick-up Plan, federal tax law requires an employer to adopt a written plan that specifies:

- The group of employees to be covered (use titles or positions, i.e., Treasurer or Administrative).
- The method of pick-up.
- The planned effective date (Pick-up Plans cannot be retroactive to the date of the Board action).

Employees in the covered group cannot opt out of the Pick-up Plan.

Follow-up with your tax counsel or the IRS to ensure that the Pick-up Plan Resolution complies with IRS code and regulations prior to being adopted.

Samples of Board Resolutions are provided at the end of this document.

Employers must submit Pickup Plans via eSERS.

Step 3: SERS will either approve or reject the submission.

The Pick-up Plan will be reviewed by a SERS Employer Services representative.

Once approved, confirmation of receipt letter will be sent via email. If rejected, the employer will be notified.

Sample Resolution for Fringe Benefit Pick-up Plan

RESOLUTION THAT THE (EMPLOYER) WILL PICK UP THE STATUTORILY REQUIRED CONTRIBUTION TO THE SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS) FOR THE [“CERTAIN” or “ALL”] EMPLOYEES OF THE (EMPLOYER) PURSUANT TO INTERNAL REVENUE CODE SECTION 414(h)(2).

WHEREAS, pursuant to federal and Ohio laws, the (EMPLOYER) may “pick up” (assume and pay) the contributions statutorily required to be paid by covered employees to the SERS and such individuals will not be required to pay federal and state income taxes on such contributions;

NOW THEREFORE BE IT RESOLVED BY (EMPLOYER), THAT:

SECTION 1: Effective (INSERT DATE) all of the statutorily required employee contributions to SERS shall be picked up and paid as a fringe benefit by the (EMPLOYER) for each person within any of the classes established in Section 2 herein. This “pick up” by the (EMPLOYER) shall be designated as public employee contributions and shall be in lieu of contributions to SERS by each person within any of the classes established in Section 2 herein. No person subject to this “pick up” shall have the option of choosing to receive the statutorily required contribution to SERS directly instead of having it “picked up” by the (EMPLOYER) or of being excluded from the “pick up”. The (EMPLOYER) shall, in reporting and making remittance to SERS, report that the employees contribution for each person subject to this “pick up” has been made as provided by the statute. Therefore, contributions, although designated as employee contributions, are employer-paid, and employees do not have the option to receive the contributions directly. All contributions are paid by the employer directly to the plan.

SECTION 2: The “pick up” by the (EMPLOYER) provided by this resolution shall apply to (“ALL PERSONS” OR SPECIFY CLASS OF EMPLOYEES) that are employees of the (EMPLOYER) who are or become contributing members of SERS.

SECTION 3: Under the fringe-benefit method of employer pick up, salary is not modified; however, the employer will pay the employees’ statutorily required contribution to SERS. These contribution shall not be treated as additional compensation for retirement purposes.

SECTION 4: The treasurer is hereby authorized and directed to implement the provisions of this resolution to institute the “pick up” of the statutorily required contributions to SERS for those persons reflected in Section 2 herein so as to enable them to have their employee contributions paid by their employer.

Sample Resolution for Fringe Benefit Pick-up on Pick-Up Plan

RESOLUTION THAT THE (EMPLOYER) WILL PICK UP THE STATUTORILY REQUIRED CONTRIBUTION TO THE SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS) FOR THE [“CERTAIN” or “ALL”] EMPLOYEES OF THE (EMPLOYER) PURSUANT TO INTERNAL REVENUE CODE SECTION 414(h)(2).

WHEREAS, pursuant to federal and Ohio laws, the (EMPLOYER) may “pick up” (assume and pay) the contributions statutorily required to be paid by covered employees to the SERS and such individuals will not be required to pay federal and state income taxes on such contributions;

NOW THEREFORE BE IT RESOLVED BY (EMPLOYER), THAT:

SECTION 1: Effective (INSERT DATE) all of the statutorily required employee contributions to SERS shall be picked up and paid as a fringe benefit by the (EMPLOYER) for each person within any of the classes established in Section 2 herein. This “pick up” by the (EMPLOYER) shall be designated as public employee contributions and shall be in lieu of contributions to SERS by each person within any of the classes established in Section 2 herein. No person subject to this “pick up” shall have the option of choosing to receive the statutorily required contribution to SERS directly instead of having it “picked up” by the (EMPLOYER) or of being excluded from the “pick up”. The (EMPLOYER) shall, in reporting and making remittance to SERS, report that the employees contribution for each person subject to this “pick up” has been made as provided by the statute. Therefore, contributions, although designated as employee contributions, are employer-paid, and employees do not have the option to receive the contributions directly. All contributions are paid by the employer directly to the plan.

SECTION 2: The “pick up” by the (EMPLOYER) provided by this resolution shall apply to (“ALL PERSONS” OR SPECIFY CLASS OF EMPLOYEES) that are employees of the (EMPLOYER) who are or become contributing members of SERS.

SECTION 3: Under this resolution the amounts picked-up by (EMPLOYER) are included in the employees’ compensation and shall be treated as additional compensation for retirement purposes. The employer will pay the employees’ statutorily required contributions for the additional compensation to SERS.

SECTION 4: The treasurer is hereby authorized and directed to implement the provisions of this resolution to institute the “pick up” of the statutorily required contributions to SERS for those persons reflected in Section 2 herein so as to enable them to have their employee contributions paid by their employer.

Sample Resolution for Salary Reduction Pick-up Plan

RESOLUTION THAT THE (EMPLOYER) WILL PICK UP THE STATUTORILY REQUIRED CONTRIBUTION TO THE SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO, (SERS) FOR THE (“CERTAIN” or “ALL”) EMPLOYEES OF THE (EMPLOYER) PURSUANT TO INTERNAL REVENUE CODE SECTION 414(h)(2).

WHEREAS, pursuant to federal and Ohio laws, the federal and state income taxes on a portion of the wages or salaries of the employees of the (EMPLOYER) will be deferred if (EMPLOYER) “picks up” (assumes and pays) the contributions statutorily required to be made by such covered employees to SERS; and

WHEREAS, (EMPLOYER) will not incur any additional costs in the picking up of such contributions.

NOW THEREFORE BE IT RESOLVED BY (EMPLOYER), THAT:

SECTION 1: Effective (INSERT DATE), the full amount of the statutorily required employee contributions to SERS shall be withheld from the gross pay of each person within any of the classes established in Section 2 herein and shall be “picked up” (assumed and paid to SERS) by the (EMPLOYER). This “pick up” by the (EMPLOYER) shall be designated as public employee contributions and shall be in lieu of contributions to SERS by each person within any of the classes established in Section 2 herein. No person subject to this “pick up” shall have the option of choosing to receive the statutorily required contribution to SERS directly instead of having it “picked up” by (EMPLOYER) or of being excluded from the “pick up”. The (EMPLOYER) shall, in reporting and making remittance to SERS, report that the employees contribution for each person subject to this “pick up” has been made as provided by the statute. Therefore, contributions, although designated as employee contributions, are employer-paid, and

employees do not have the option to receive the contributions directly. All contributions are paid by the employer directly to the plan.

SECTION 2: The “pick up” by the (EMPLOYER) provided by this resolution shall apply to (“ALL PERSONS” OR SPECIFY CLASS OF EMPLOYEES) that are employees of the (EMPLOYER) who are or become contributing members of SERS.

SECTION 3: The (EMPLOYER’S) method of payment of salary to employees who are participants in SERS is hereby modified as provided in Section 4, in order to provide for a salary reduction pick up of employee contributions to SERS.

SECTION 4: The total salary for each employee shall be the salary otherwise payable under the (EMPLOYER) policies. Such total salary of each employee shall be payable by the (EMPLOYER) in two parts: (a) deferred salary and (b) cash salary. An employee’s deferred salary shall be equal to that percentage of that employee’s total salary which is required from time to time by SERS to be paid as an employee contribution by that employee, and shall be paid by the (EMPLOYER) to SERS on behalf of that employee as a pick up and in lieu of the SERS employee contribution otherwise payable by that employee. An employee’s cash salary shall be equal to that employee’s total salary less the amount of the pick up for that employee, and shall be payable, subject to applicable payroll deductions, to that employee. The (EMPLOYER) shall compute and remit its employer contributions to SERS based upon an employee’s total salary. The total combined expenditures of the (EMPLOYER) for such employees’ total salaries payable under applicable (EMPLOYER) policies and the pickup provisions of this resolution shall not be greater than the amounts it would have paid for those items had this provision not been in effect.