



EMPLOYER FACT SHEET SERIES

Employer Pickup

Individual employers may choose to “pick up” member retirement contributions as a means of deferring federal and state income taxes on these amounts. In 1983, the Internal Revenue Service issued an opinion authorizing member contributions to STRS Ohio to be tax deferred. The authority for employer pickup is the Internal Revenue Code. There are no Ohio laws or Administrative Code Rules governing this program.

Section 414(h)(2) of the Internal Revenue Code specifies the following conditions for employer pickup of retirement contributions:

1. The employer must specify that contributions, although designated as employee contributions, are being paid by the employer in lieu of the employee; and
2. The employee must not be given the option of choosing to receive the amounts directly instead of having them paid by the employer to the pension plan.

The IRS has also issued a private-letter ruling that states pickup may not be effective for contributions made before the date of the school board resolution implementing the plan. In other words, pickup plans cannot be retroactive.

There are currently three forms of employer pickup that employers are authorized to adopt.

1. **Salary reduction:** Under this form of employer pickup, individual members’ salaries are reduced by the amount of member retirement contributions. The employer then pays the contributions. This form of pickup does not require any additional cash to be paid by the employer. The member receives the benefit of reduced gross income for state and federal tax purposes. For example, if the employer has a salary reduction pickup plan in place and a full-time educator has a \$40,000 contract, then:

| | |
|---|----------------|
| Contract salary and earnings for STRS Ohio purposes | \$40,000 |
| Member contributions (currently 14%) | <u>– 5,600</u> |
| Taxable federal and state income | \$34,400 |

2. **Fringe benefit pickup not included in compensation:** As a way to further compensate employees without increasing their gross income, some employers may choose to pay all or a portion of the member contributions. Under this form of pickup, members receive the benefit of the employer paying all or part of their member contributions without salary reduction, thus keeping their gross salary at the same amount. For example, if the employer has a fringe benefit pickup **not included** in compensation plan in place and a full-time educator has a \$40,000 contract, and the employer agrees to pay the entire share of member contributions, then:

| | |
|--|----------|
| Contract salary and earnings for STRS Ohio purposes | \$40,000 |
| Member contributions paid by employer (currently 14%) | \$ 5,600 |
| Taxable federal and state income | \$40,000 |

3. **Fringe benefit pickup included in compensation (pickup-on-pickup):** Similar to the pickup outlined in number two above, this form of pickup not only allows the employer to pay all or part of the member contributions, but also includes those amounts in the member’s salary for STRS Ohio retirement purposes. For example, if the employer has a fringe benefit pickup **included** in compensation plan in place and a full-time educator has a \$40,000 contract (with no additional earnings), and the employer agrees to pay the entire share of member contributions, then:

| | |
|---|-------------------|
| Contract salary and taxable federal and state income | \$40,000 |
| Member contributions paid by employer (currently 14%) | <u>+ \$ 5,600</u> |
| Compensation for STRS Ohio purposes | \$45,600 |
| Total member contributions due to STRS Ohio paid by employer (\$45,600 x 14%) | \$ 6,384 |

Frequently Asked Questions

How do I notify STRS Ohio that our board has adopted or modified a pickup plan?

Employers are required to send the following documentation to STRS Ohio anytime a pickup plan is adopted or modified:

1. *Notification for Employer Pickup of Employee Contributions* form; and
2. A certified copy of the applicable school board resolution or action. This resolution must include the rate of pickup, plan type, member groups covered by the plan and effective date.

The procedure and required forms are the same for plan adoptions and modifications. The notification form and sample board resolutions for each type of pickup can be found in the Resources section of the employer website under "Forms."

Review your pickup plan information in ESS for accuracy. If updates are needed, email new plan documentation to report@strsoh.org.

Can a school adopt a retroactive pickup plan?

No. A pickup plan must be implemented by a board resolution before contributions are considered as part of the pickup plan.

If pickup plans allow for pretax deductions for member contributions, when are these monies taxed?

These contribution amounts become taxable when received by the individual in the form of a refund or retirement benefits. Employers should contact tax authorities to determine the effect of employer pickup on city or local income taxes.

Isn't pickup-on-pickup (fringe benefit included in compensation) actually 15.96% for the full member contribution amount?

No. Under Section 3307.26 of the Revised Code, member contribution amounts are set by the State Teachers Retirement Board, but currently may not exceed 14% without legislative approval. When calculating pickup-on-pickup, employers are actually contributing 14% on the salary amount, as well as 14% on the contribution amount added to salary (because it is included in compensation).

For example, if a member is employed on a full-time contract for \$45,000 (with no additional earnings) and the employer has adopted a full fringe benefit pickup included in compensation plan, then the calculation is as follows:

| | |
|--|----------------|
| Contract salary | \$45,000 |
| Member contributions paid by employer (14% of contract salary) | + \$6,300 |
| Compensation for STRS Ohio purposes | \$51,300 |
| Total member contributions paid by employer (\$51,300 x 14%)..... | \$7,182 |

As in the example provided, employers often prefer to calculate pickup-on-pickup using the contract salary instead of total compensation for STRS Ohio purposes. If this is the case, then your payroll system must be programmed with 15.96% as the adjusted rate for a full 14% pickup-on-pickup plan.

Are any resources available to help me calculate pickup-on-pickup?

Yes. A pickup-on-pickup calculator is available in the Calculators section of the employer website. This online tool has the capability to properly calculate pickup-on-pickup for full and partial (split) pickup plans.

For More Information

Log on to the employer website at www.strsoh.org/employer

Call the Employer Reporting Department toll-free at **888-535-4050** or send an email to report@strsoh.org