

# Employer Basics 101: Employer Pickup

## What is employer pickup?

The term pickup is used to describe the process of withholding member contributions on a pretax basis.

In 1983, the IRS issued an opinion that allowed member contributions to STRS Ohio to be withheld on a tax-deferred basis. To withhold member contributions on a tax-deferred basis, employers must adopt a pickup plan. If a district does not have a pickup plan in place, then contributions must be withheld on an after-tax basis. While your district's pickup plans may have been modified throughout the years, nearly every employer has a pickup plan in place today.

When an employer adopts a pickup plan to withhold contributions on a pretax basis, the Internal Revenue Code specifies the following conditions for employer pickup of retirement contributions:

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

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. **Pickup plans cannot be retroactive.**

The authority for employer pickup is the Internal Revenue Code. There are no Ohio laws or Administrative Code Rules governing this program.

## If a pickup plan is adopted, when is the member taxed?

Any tax-deferred or "picked-up" contributions are not subject to federal and state taxes during the current year, but are subject to taxation when received as a benefit or at the time of account distribution.

## Employer Pickup Checklist

- To confirm current pickup plans in place, send an email request to [report@strsoh.org](mailto:report@strsoh.org)
- If adopting or modifying a pickup plan, submit:
  - *Notification for Employer Pickup of Employee Contributions* form, and
  - Board resolution or action
- Total contribution percentage indicated on form should not exceed the member contribution rate in effect for the fiscal year
- Check the "Yes" box on the form if the pickup plan type is fringe benefit included in compensation (pickup-on-pickup). Check "No" for all other plan types
- When using the sample board resolution language provided on Page 6, ensure you are only using the language for the type of plan being adopted. (The sample shows language for all three types of plans)
- Ensure contributions are calculated correctly (use the online calculator for pickup-on-pickup plans)



## What are pickup plan types and recognized member groups?

When a pickup plan is adopted, employers must be specific about the type of pickup plan and the member group to which the plan applies. All members are classified as part of a recognized group. Generally, a specific pickup plan is adopted for an entire group of members. The recognized member groups are:

1. Superintendents or presidents,
2. Administrators or administrative faculty, and
3. Teachers or teaching faculty.

There are currently three types of employer pickup that employers are authorized to adopt:

1. Salary reduction pickup,
2. Fringe benefit pickup not included in compensation, and
3. Fringe benefit pickup included in compensation, which is also known as pickup-on-pickup.

For more detail on each plan type, please see the chart below and on Pages 3 and 4.

## Do we have to offer the same pickup plan to all members of a recognized group?

No. The type and percentage of pickup can vary within a group as long as the total percentage of all pickup plans is the same for each member within that group. For example, the board may choose to adopt a fringe benefit pickup not included in compensation plan for all administrators. In this case, the employer can pay the full amount of fringe benefit member contributions for a high school principal, but only pay a portion of a junior high principal's fringe benefit member contributions. In this example, the employer could pay 5% fringe benefit pickup and the remaining percentage as salary reduction pickup for the junior high principal.

In a case like this, please provide STRS Ohio with a notification form that clearly indicates the pickup amounts for that individual and a copy of the board resolution.

## Comparing types of pickup plans

Plan Types:	Salary Reduction Pickup	Fringe Benefit Pickup Not Included in Compensation	Fringe Benefit Pickup <i>Included</i> in Compensation (Pickup-on-Pickup)
How does it work?	Member's salary reduced by the amount of member contributions and employer remits pretax	Employer agrees to pay member's pretax contributions	Employer agrees to pay member's pretax contributions <b>and</b> considers the payment as compensation for retirement purposes
Who funds member contributions?	Member	Employer funds all or a portion	Employer funds all or a portion
What's the benefit to the member?	Reduced gross income for state and federal tax purposes	Further compensates employee without reducing gross income for tax purposes	Further compensates employee without reducing gross income for tax purposes <b>and</b> increases income for retirement purposes
Groups?*	Teachers	Administrators	Superintendents/Administrators

\*While any group or individual can have any type of pickup plan, districts tend to grant these types of pickup to the identified groups of employees.



## Comparing pickup plan types by the dollar

Plan Types:	Salary Reduction Pickup	Fringe Benefit Pickup Not Included in Compensation	Fringe Benefit Pickup Included in Compensation (Pickup-on-Pickup)
Base contract amount	\$70,000	\$70,000	\$70,000
Member contribution due (\$70,000 x 14%)	\$9,800	\$9,800	\$9,800 + (14% of \$9,800)
Taxable state & federal income	\$60,200	\$70,000	\$70,000
<b>Compensation for STRS Ohio purposes</b>	<b>\$70,000</b>	<b>\$70,000</b>	<b>\$79,800</b>

### What financial impact does a pickup plan have on a district and a member?

It depends on the type of pickup plan the district adopts. The table on Page 4 shows the difference between the plans and how they affect the member and the district.

For the salary reduction pickup and the fringe benefit pickup *not* included in compensation plans, the member's compensation for retirement purposes is the same as the contract salary. However, in the fringe benefit pickup included in compensation (pickup-on-pickup) plan, the

contract salary is being increased by the member contribution amount to determine the member's compensation for retirement purposes.

The employer contribution (14%) is calculated on the amount of compensation for retirement purposes. In the case of fringe benefit *not* included in compensation the employer is paying the member share agreed upon (full or partial) and the employer share to STRS Ohio. With fringe benefit included in compensation the employer is paying both the member and employer contributions but with additional contributions as a result of inflating the member's salary for retirement purposes.



Plan Types:	Salary Reduction Pickup	Fringe Benefit Pickup Not Included in Compensation	Fringe Benefit Pickup Included in Compensation (Pickup-on-Pickup)
Base contract amount	\$70,000	\$70,000	\$70,000
Compensation for STRS Ohio purposes	\$70,000	\$70,000	\$79,800
Member contribution due (14%)	\$9,800	\$9,800	\$11,172
Employer contribution due (14%)	\$9,800	\$9,800	\$11,172
<b>Total contributions due from employer</b>	<b>\$9,800</b>	<b>\$19,600</b>	<b>\$22,344</b>

## Why would a district grant a fringe benefit pickup plan?

A fringe benefit pickup plan is a way to further compensate an employee. If a district wants to provide additional monetary compensation to an employee without increasing the base contract amount, one option is to adopt a fringe benefit pickup plan.

**Example:** Your board granted all employees a salary reduction pickup plan, but beginning July 1, 2022, wishes to change that to a full pickup-on-pickup plan for your superintendent. This not only increases the amount of compensation that the superintendent receives in his “take home” pay, but also increases his income for retirement purposes.

A properly completed *Notification for Employer Pickup of Employee Contributions* form for modifying the superintendent’s pickup plan is on Page 5.

## What is the process for notifying STRS Ohio if a pickup plan is adopted or revised?

Once a pickup plan is adopted, a completed *Notification for Employer Pickup of Employee Contributions* form must be sent to STRS Ohio at [report@strsoh.org](mailto:report@strsoh.org) along with a certified copy of the applicable board resolution or action.

A sample *Notification for Employer Pickup of Employee Contributions* form and sample board resolution are on Pages 5 and 6. The board resolution authorizing a pickup plan must include: **rate of pickup, plan type, member groups covered and the effective date.**

**Anytime a revision is made to an employer pickup plan, STRS Ohio must be notified.** This includes a revision to your plans due to a change in member contribution rate.

The procedure for notifying STRS Ohio for a change in pickup plan is the same as the initial process described above.

## What tools are available to assist me with pickup questions?

To see your current pickup plans, log in to Employer Self Service (ESS) and click on “Pickup Plan Information” under Additional Tools. STRS Ohio also offers a variety of resources to assist you with understanding and calculating employer pickup properly, including:

- *Employer Pickup* fact sheet on the STRS Ohio Employer Website
- Online pickup-on-pickup calculator with the option to calculate full or split pickup-on-pickup contributions due
- Employer Pickup topic on the employer website includes detailed information and frequently asked questions





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RETIREMENT SYSTEM  
OF OHIO

275 East Broad Street  
Columbus, OH 43215-3771  
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614-227-7893 (fax)  
www.strsoh.org/employer

## NOTIFICATION FOR EMPLOYER PICKUP OF EMPLOYEE CONTRIBUTIONS

This notification must be filed with STRS Ohio when an employer elects to pick up all or a portion of the required employee contributions stipulated in Section 3307.26, Revised Code, or when an existing employer pickup plan is amended. **Important:** A copy of the board action authorizing the pickup must be submitted with this notification.

Employer Ohio Local Schools Employer no. 9599

Address 1234 Market St.

City Anytown ZIP code 43215

Effective date of pickup is July 1, 2023

Employee group covered:

<b>School District</b>	<b>College/University</b>
<input checked="" type="checkbox"/> Superintendent	<input type="checkbox"/> President
<input type="checkbox"/> Administrator	<input type="checkbox"/> Administrative faculty
<input type="checkbox"/> Teacher	<input type="checkbox"/> Teaching faculty

Employee contributions for earned compensation required under Section 3307.26, R.C., will be accounted for as follows:

### Employee Contributions

Salary reduction pickup.....	<u>14</u> %
Pickup paid by employer in addition to regular contract salary .....	<u>0</u> %
<i>Is this amount included in compensation for retirement purposes?</i>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Total STRS Ohio contributions required under Section 3307.26, R.C. ...	<u>14</u> %

I understand this notification will remain in effect until a notice of change or termination is filed with STRS Ohio. I also understand all of the *guidelines listed on the reverse side* of this notification have been met or acknowledged.

Treasurer/CFO signature Jim Smith Date 6/15/23





## SAMPLE BOARD RESOLUTION TO AUTHORIZE EMPLOYER PICKUP OF EMPLOYEE CONTRIBUTIONS

### Adoption of Pickup

Be it resolved, effective     (prospective date)    , the     (employer — board name)     agrees to pick up the total amount of employee contributions required by Section 3307.26, Revised Code, to be contributed by     (group name and specific class of employees)     to STRS Ohio.     (Employer — board name)     is permitted to pick up employee contributions pursuant to Section 3307.27, Revised Code, and Section 414(h)(2) of the Internal Revenue Code. These picked-up contributions, although designated as employee contributions, are being paid by the     (employer — board name)     in lieu of employee contributions and

**(Salary reduction)**

shall be treated as mandatory salary reduction from the contract salary otherwise payable to the employee.

or

**(Fringe benefit)**

shall be paid by the board as a fringe benefit in addition to the contract salary otherwise payable to the employee. These contributions shall not be treated as additional compensation for retirement purposes.

or

**(Fringe benefit included in compensation)**

shall be paid by the board as a fringe benefit in addition to the contract salary otherwise payable to the employee. These contributions shall be treated as additional compensation and included in salary for retirement purposes.

Employees in the (group) may not opt out of the picked-up contributions or elect to receive the contributed amounts directly instead of having them picked up by the     (employer — board name)     and paid to STRS Ohio.

*This sample resolution is provided for your convenience and does not constitute tax or legal advice. Although we have attempted to provide accurate information, STRS Ohio cannot guarantee tax results in any way or be held responsible for any loss incurred as a result of the use of this information. Contact your tax advisor or legal counsel for specific information about how this information might affect your situation.*

50-316, 3/17/0

