Pick-up Plans

Presented by:
OPERS Employer Services
AGENDA

1. What is a pick-up plan?
2. Types
3. Elected officials
4. Plan requirements
Internal Revenue Code 414(h)(2)

Allows employer to defer taxes on employee’s retirement contributions.

Ohio Public Employees Retirement System
Types of Pick-up Plans

- Salary reduction method
- Fringe benefit method
Salary Reduction

Do not receive pay increase

Pay less federal & state taxes

• No federal, state & school district taxes withheld from picked-up contribution
Salary Reduction

- Contribution not reported as taxable income on W-2
  - For federal, state or school district purposes
  - Reduced salary reported on W-2

- Taxable for local tax and Medicare
Fringe Benefit

Direct increase in take-home pay

FAS is not increased

No federal, state or school district taxes withheld from picked-up contributions
Fringe Benefit

Not reported as taxable income on W-2 for federal, state or school district purposes

Contribution taxable for local tax and Medicare
Not eligible to participate in fringe benefit pick-up plan while serving in term in which plan enacted.

Elected officials and fringe benefit pick-up
Township elected officials are not eligible for a fringe benefit pick-up plan.

Per AGO 2004-48
## Comparison of Pick-up Plans

<table>
<thead>
<tr>
<th></th>
<th>No Pick Up Plan</th>
<th>Salary Reduction</th>
<th>Fringe Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>1,000.00</td>
<td>1,000.00</td>
<td>1,000.00</td>
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<tr>
<td>Salary with pick up reduction</td>
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<td>900.00</td>
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<tr>
<td>Taxable income</td>
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<tr>
<td>Federal income tax (at 15%)</td>
<td>150.00</td>
<td>135.00</td>
<td>150.00</td>
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<tr>
<td>State tax (at 2%)</td>
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<td>18.00</td>
<td>20.00</td>
</tr>
<tr>
<td>City tax (at 2%)</td>
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<td>20.00</td>
<td>22.00</td>
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<tr>
<td>Medicare (at 1.45%)</td>
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<td>15.95</td>
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<td>Pension contribution</td>
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<tr>
<td>Additional take-home pay</td>
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<td>96.55</td>
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<tr>
<td>Earnable salary (pensionable earnings)</td>
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<tr>
<td>Costs to employer</td>
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<td>100.00</td>
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</tbody>
</table>
Plan Requirements

Plan must include:

- Who is eligible to participate
- Effective date of plan
- % of contributions that are “picked-up”
- Exact language to meet IRS requirements
1. Cannot be retroactive

2. Submitted to OPERS prior to effective date

3. OPERS must accept plan as compliant

4. May be assigned new employer code

5. Employees cannot choose to participate

6. Plan changes must be submitted for approval
Publication with templates can be found on the OPERS website, www.opers.org - Employer Publications - Instructions for Implementing an Employer Pick-up Plan