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City of Oakland Council Agenda Report

To: Office of the City Manager
Attn: Deborah Edgerly
From: Retirement Systems
Date: February 24, 2004

Subject: RESOLUTION AUTHORIZING PRE-TAX PAYROLL DEDUCTION
FOR SERVICE CREDIT PURCHASE FROM CALIFORNIA PUBLIC
EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

SUMMARY

A resolution has been prepared that will allow City of Oakland associates (miscellaneous and safety) to purchase service credit from CalPERS (PERS) on a pre-tax basis. This resolution allows the City of Oakland to implement the provisions of IRC section 414 (h) (2) by making employee contributions for service credit purchased pursuant to the California State Government Code on behalf of its employees who are members of CalPERS and who have made a binding irrevocable election to participate in the pre-tax payroll deduction plan. The pre-tax payroll deduction benefit will be available to the following membership coverage groups: miscellaneous, fire safety and police safety.

FISCAL IMPACT

There is no fiscal impact or cost to the City of Oakland. Through our contract with CalPERS, current and future City Associates are able to purchase service credit for military service (one to four years), previous service (no limit) and additional retirement service credit (air time - one to five years)) from CalPERS.

Employees choosing to purchase service credit are responsible for all cost associated with this benefit. Payments to CalPERS are presently taken directly from the Associate's pay on a post tax basis and forwarded to CalPERS. This contract amendment will allow for those deductions to be made on a pre tax basis. CalPERS determines the actuarial cost of purchasing service credit that will be fully paid by the employee with no liability to the City of Oakland.

KEY ISSUES AND IMPACTS

The implementation of IRC 414 (h) (2) will allow the City of Oakland to pick up the contributions of employees purchasing service credit from CalPERS and to treat those contributions as employer's contribution. This will exclude the employees' pension contributions from federal gross income and withholding requirements.

Additionally, it has been determined that the City's payroll system meets the requirements established by CalPERS to participate in the pre-tax payroll deduction for the purchase of service credit. Eligible City associates

(miscellaneous and safety) will benefit from purchasing service credit on a pre-tax basis.

Other jurisdictions who have adopted this benefit option are: Yolo and Santa Cruz Counties in addition to the City of Santa Rosa.

SUSTAINABLE

There are no environmental opportunities or impacts associated with the approval of this resolution.

DISABILITY AND SENIOR CITIZEN ACCESS

There is no impact on residents with disabilities and/or senior citizens relative to accessibility.


RECOMMENDATION AND RATIONALE

The adoption of this resolution will allow City Associates who are eligible to purchase one or a combination of the following types of service credits: military (from one to four years), previous service (no limit) and air time service (from one to five years) credits from CalPERS, to purchase their service credit(s) on a pre-tax basis. This resolution deals with the tax treatment of purchasing service credit from CalPERS. City employees are currently buying service credit on a post tax basis, this resolution will allow City Associates to purchase service credit on a pre-tax basis.


ACTION REQUESTED OF COUNCIL

Staff recommends that the City Council approve this resolution

Respectfully submitted,


Walter L. Johnson, Sr., Director
Retirement Systems

Prepared by:


Jim Brown, Assistant Director
Retirement Systems

APPROVED FOR FORWARDING
TO THE FINANCE AND MANAGEMENT COMMITTEE


Office of the City Manager

OAKLAND CITY COUNCIL

OFFICE OF THE CITY CLERK

City Attorney

RESOLUTION NO. _____

C.M.S.

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**Employer Pickup Resolution
Pre-Tax Payroll Deduction Plan
For Service Credit Purchases
(Contribution Code 14)**

WHEREAS, the Board of Administration of the California Public Employees' Retirement System (CalPERS) at the April 1996 meeting approved a pre-tax payroll deduction plan for service credit purchases under Internal Revenue Code (IRC) section 414(h)(2); and

WHEREAS, the City of Oakland has the authority to implement the provisions of IRC section 414(h)(2) and has determined that even though implementation is not required by law, the tax benefit offered by this section should be provided to those employees who are members of CalPERS; and

WHEREAS, the City of Oakland elects to participate in the pre-tax payroll deduction plan for all employees in the following CalPERS coverage group(s):

- Miscellaneous 70001
- Fire Safety 74001
- Police Safety 75001

now, therefore be it

RESOLVED:

- I. That the City of Oakland will implement the provisions of IRC section 414(h)(2) by making employee contributions for service credit purchases pursuant to the California State Government Code on behalf of its employees who are members of CalPERS and who have made a binding irrevocable election to participate in the pre-tax payroll deduction plan. "Employee contributions" shall mean those contributions reported to CalPERS which are deducted from the salary of employees and are credited to individual employee accounts for service credit purchases, thereby resulting in tax deferral of employee contributions.
- II. That the contributions made by the City of Oakland to CalPERS, although designated as employee contributions, are being paid by the City of Oakland in lieu of contributions by the employees who are members of CalPERS.

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- III. That the employees shall not have the option of choosing to receive the contributed amounts directly instead of having them paid by the City of Oakland to CalPERS.
- IV. That the City of Oakland shall pay to CalPERS the contributions designated as employee contributions from the same source of funds as used in paying salary, thereby resulting in tax deferral of employee contributions.
- V. That the effective date for commencement of the pre-tax payroll deduction plan cannot be any earlier than July 1, 1996, or the date the completed resolution is received and approved in CalPERS, whichever is later.
- VI. That the governing body of the City of Oakland shall participate in and adhere to requirements and restrictions of the pre-tax payroll deduction plan by reporting pre-tax payroll deductions when authorized by CalPERS for those employees of the above stated Coverage Group(s) who have elected to participate in this plan.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 20_____

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, WAN and PRESIDENT DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

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ATTEST:

CEDA FLOYD
City Clerk and Clerk of the Council
of the City of Oakland, California