

# Agenda Report

October 18, 2004

TO: City Council  
FROM: City Manager  
RE: Adoption of a Resolution to Allow for a Pre-Tax Payroll Deduction Plan for California Public Employees' Retirement System Service Credit Purchases

## RECOMMENDATION

It is recommended that the City Council adopt the attached Resolution to allow for pre-tax payroll deductions for the purchase of service credit for employees who are members of the California Public Employees' Retirement System (CalPERS).


## BACKGROUND

CalPERS retirement benefit calculations are based in part on an employee's service credit, which is defined as the number of years an employee has worked in employment covered by CalPERS. Last year CalPERS implemented a benefit referred to as "air time," which allows members to purchase additional service credit for time not worked in a CalPERS agency, thereby increasing future retirement benefits. Under CalPERS regulations, payment for purchased air time may be made through payroll deductions, which are considered to be employee retirement contributions. The Internal Revenue Code provides that retirement contributions may be made on a pre-tax basis, thereby reducing an employee's overall current tax liability. The attached Resolution is required by CalPERS to allow such contributions to be made pre-tax. This action has no impact on existing CalPERS retirement plans or processes, nor is an employee in any way obligated to utilize the payroll deduction method of payment for air time purchases.

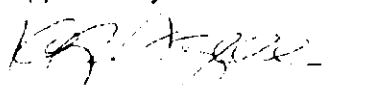
## FISCAL IMPACT

None. There will be no cost to the City to implement this plan.

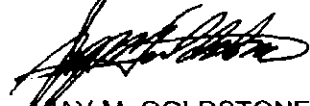
Respectfully Submitted,

  
CYNTHIA J. KURTZ  
City Manager

Approved by:

  
KARYN S. EZELL  
Director of Human Resources

Concur:

  
JAY M. GOLDSTONE  
Director of Finance

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA  
TO ALLOW A PRE-TAX PAYROLL DEDUCTION PLAN FOR SERVICE CREDIT PURCHASES  
FOR EMPLOYEES WHO ARE MEMBERS OF  
THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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

WHEREAS, the City of Pasadena 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, it is in the best interests of the City of Pasadena that the tax benefit offered by this Section should be provided to those employees who are members of CalPERS; and,

WHEREAS, the City of Pasadena elects to participate in the pre-tax payroll deduction plan for all employees in the following CalPERS coverage groups:

BE IT RESOLVED by the City Council of the City of Pasadena as follows:

SECTION 1. The City of Pasadena 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.

SECTION 2. Such contributions made by the City of Pasadena to CalPERS, although designated as employee contributions, are being paid by the City of Pasadena in lieu of contributions by the employees who are members of CalPERS.

SECTION 3. The employees shall not have the option of choosing to receive the contributed amounts directly instead of having them paid by the City of Pasadena to CalPERS.

SECTION 4. The City of Pasadena 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.

SECTION 5. The effective date for commencement of the pre-tax payroll deduction plan shall be the date this Resolution is received and approved by CalPERS.

SECTION 6. The City Council of the City of Pasadena 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.

Adopted by the following vote at the meeting of the City Council on October 18, 2004:

AYES:

NOES:


ABSTAIN:

ABSENT:

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Jane Rodriguez, City Clerk

Approved as to Form:



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Hugh Halford, Assistant City Attorney