Virginia Retirement System

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Memorandum

TO: Administrative Heads and Fiscal Officers

FROM: Robert P. Schultze, Director, Virginia Retirement System

DATE: May 24, 2010

SUBJ: Member Contribution Pick-Up Guide Resolution

The Virginia General Assembly, in its 2010 session, passed legislation implementing new plan provisions for employees hired or rehired on or after July 1, 2010 with no prior Virginia Retirement System (VRS) service. The new plan is called the VRS Plan 2. The legislation stipulates that Plan 2 employees will pay the 5 percent member contribution through salary reduction on a pre-tax basis according to Internal Revenue Code §414(h). However, you may elect to pay some or all of the 5 percent member contribution on behalf of your Plan 2 employees. To do so, you must submit a resolution to VRS.

Attached is a guide resolution. Here are your options regarding payment of the member contribution:

- Your employees pay the 5 percent member contribution. This option does not require action by your governing body. Check the first box in the attachment, fill in the blank with the name of your political subdivision and sign by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010**.
- You elect to pick up between 1 percent and 5 percent of the member contribution with the balance paid by your employee. Check the second box in the attachment and have your governing body complete and duly authorize the rest of the resolution by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010.**
- You elect to pick up the full 5 percent member contribution on a six-year, phase-in schedule. To implement this option, contact one of the individuals listed below for a separate guide resolution (not attached). Your governing body must complete and duly authorize this resolution by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010.**

Once you elect a payment option for member contributions, send the resolution to the attention of the VRS Employer Representatives listed below **by no later than August 1, 2010**. If we do not receive your resolution by August 1, VRS will hold your payroll and contact you to see if you have elected an option. If your governing body does not approve a pick up of member contributions before June 30, your employees will pay the 5 percent member contribution on a pre-tax salary reduction basis. Your payroll system will need to accommodate this. Once your governing body sends a resolution to VRS electing one of the above options, VRS will process the payroll to reflect your governing body's decision regarding member contributions.

The decision you make regarding member contributions remains in effect for fiscal year 2011 (July 1, 2010 – June 30, 2011). Your election remains in effect until you submit another resolution. Any change becomes effective the beginning of the next fiscal year. Payment decisions affect all Plan 2 members hired on or after July 1, 2010.

Resources:
Contact VRS Employer Representatives:

- Rohn Brown at *rbrown@varetire.org* or (804) 775-3228
- Marie Daniels at *mdaniels@varetire.org* or (804) 344-3197

View more information about the new plan design provisions in the June issue of *Employer Update,* available on the VRS Web site at *www.varetire.org*. Select the Employer tab.

Enclosure

MSLETT

The Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2" employees). The legislation amended VA Code § 51.1-144 to provide that Plan 2 employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h). Internal Revenue Code § 414 (h) provides that a governmental employer may "pick-up" mandatory employee contributions and thereby cause the contributions to be made on a pre-tax basis. The formal written action required by Internal Revenue Code § 414 (h) to effect the pick-up has been taken by the General Assembly with the Governor's signature.

The legislation also permits each county, city, town, local public school board or other local employer to pick-up, in whole or in part (in 1 percent increments), the 5 percent member contribution as an additional benefit not paid as salary. The employer's optional payment of the 5 percent member contribution may be phased in over a period approved by the VRS Board not to exceed 6 years and may only be made on a uniform basis for all its Plan 2 employees. The formal written action required by Internal Revenue Code § 414 (h) to effect the pick-up using the alternatives permitted by the legislation must be taken by the governing body of the specific employing entity and must be effective only on a prospective basis.

Please indicate, by selecting one option below, how member contributions will be paid:

- ☐ This is to acknowledge that_____ (Employer Name) will have the employees pay the 5 percent member contribution according to the terms of the legislation. This action does not require action by your governing body. _____(Authorized Signature)_____(Date)

- ☐ This is to acknowledge that_____(Employer Name) elects to pick-up some or all of the 5 percent member contributions as detailed in the following duly approved resolution.

RESOLUTION

Authorization to Pick-up the Employee's Contribution to VRS Under § 414(h) of the Internal Revenue Code For Plan 2 Employees

WHEREAS, the Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2 Employees"). The legislation stipulates that Plan 2 Employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h) on a pre-tax basis; and

WHEREAS, the legislation allows certain employers, including the _____, (Employer Name) to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary; and

WHEREAS, the election to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary shall, once made, remain in effect for the applicable fiscal year (July 1 - June 30) and shall continue in effect beyond the end of such fiscal year absent a subsequent resolution changing the way the 5 percent member contribution is paid; and

WHEREAS, employee contributions that are picked-up as an additional benefit not paid as salary are not considered wages for purposes of VA Code § 51.1-700 et seq. nor shall they be considered salary for purposes of VA Code § 51.1-100 et seq.; and

WHEREAS, the _____ (Employer Name) desires to pick-up and pay its Plan 2 Employees' member contributions to VRS as an additional benefit not paid as salary in an amount equal to (1%) (2%) (3%) (4%) (5%) of creditable compensation; and

WHEREAS, VRS tracks such picked-up member contributions and is prepared to treat such contributions as employee contributions for all purposes of VRS.

NOW, THEREFORE, IT IS HEREBY RESOLVED that effective the first day of _____ **[stated month must be after the date this Resolution is adopted]**, the _____ (Employer Name) shall pick-up member contributions of its Plan 2 Employees to VRS as an additional benefit not paid as salary in an amount equal to (1%) (2%) (3%) (4%) (5%) of creditable compensation subject to the terms and conditions described above; and it is further

RESOLVED that such contributions, although designated as member contributions, are to be made by the _____(Employer Name) in lieu of member contributions; and it is further

RESOLVED that nothing herein shall be construed so as to permit or extend an option to VRS members to receive the picked-up contributions made by the _____ (Employer Name) directly instead of having them paid to VRS.

Adopted in _____, Virginia this _____ day of _____, _____.

_____

Authorized Signature Title