



AGENDA REPORT

Meeting Date: June 24, 2014

Item Number: F-10

To: Honorable Mayor & City Council

From: Don Rhoads, Director of Administrative Services/CFO
Shelley Ovrom, Interim Asst. Director of Administrative Services/Human Resources

Subject: RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS TO TAX DEFER MEMBER PAID CONTRIBUTIONS – IRC 414(h)(2) EMPLOYER PICK-UP

Attachments: 1. Resolution

RECOMMENDATION

Staff recommends approval of the attached resolution to tax defer pension contributions paid by the employee under Internal Revenue Code Section 414(h)(2).

INTRODUCTION

The City provides retirement benefits to eligible employees under the California Public Employees' Retirement System (CalPERS). To fund these benefits, the City pays employer contributions to CalPERS in amounts determined annually by CalPERS actuaries. Before 2013, the City also paid all member contributions on its employees' behalf, a practice known as employer-paid member contributions (EPMC).

DISCUSSION

Starting in 2013 the City began implementing negotiated changes to its pension payment structure in order to phase in the payment of the employee share of the pension cost by the employee. The City's Memorandum of Understanding (MOU) with the Firemen's Association required that, starting in July of 2013, all employees in this bargaining group pay part of their member contributions. Similarly, Police employees will begin paying a portion of their pension cost in 2016 and all City non-safety employees would also soon begin paying their full member contribution under their MOUs if approved by City Council.

In addition to the City's actions, under California's new Public Employees Pension-Reform Act (PEPRA), public agencies are not permitted to pay EPMCs for employees classified as "new members" by PEPRA. (EPMCs are still permitted for employees who are "classic members" under PEPRA.) This rule applies beginning January 1, 2013, or at a later date if certain facts apply. Consequently, City employees who are new members must pay (or will soon be required to pay) their member contributions.

These member contributions paid by employees are deducted from their City pay. Under the federal tax laws, these deductions are after-tax. That is, taxes are calculated without regard to the deduction for the member's pension contribution. If, however, the City takes formal action designating the deductions as "pick-up" contributions, they would qualify as pre-tax for income-tax purposes. This creates a tax savings for the member as taxes would then be calculated on a smaller amount, that is, after the pension contribution has been deducted. This rule is set out under section 414(h)(2) of the Internal Revenue Code and related Internal Revenue Service rulings. Accordingly, attached is a City Council resolution implementing a pick-up designation. Upon the Council's adoption of the resolution, all future member contributions deducted from City employees' pay will be pre-tax for income-tax purposes.

FISCAL IMPACT

There is no fiscal impact on the City related to the adoption of this resolution.



Don Rhoads

Finance Approval



Shelley Ovrom

Approved By

Attachment 1

RESOLUTION NO. 14-R-

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS
TO TAX DEFER MEMBER PAID CONTRIBUTIONS – IRC 414(h)(2)
EMPLOYER PICK-UP

WHEREAS, the Council of the City of Beverly Hills (the “Council”) has the authority to implement the provisions of section 414(h)(2) of the Internal Revenue Code (IRC); and

WHEREAS, the Council of the City of Beverly Hills (the “Council”) has determined that even though the implementation of the provisions of section 414(h)(2) IRC is not required by law, the tax benefit offered by section 414(h)(2) IRC should be provided to all employees who are members of the California Public Employees' Retirement System:

NOW, THEREFORE, the Council of the City of Beverly Hills does hereby resolve as follows:

- I. That City of Beverly Hills will implement the provisions of section 414(h)(2) Internal Revenue Code by making employee contributions pursuant to California Government Code Section 20691 to the California Public Employees' Retirement System on behalf of all its employees or all its employees in a recognized group or class of employment who are members of the California Public Employees Retirement System. "Employee contributions" shall mean those contributions to the Public Employees' Retirement System which are deducted from the salary of employees and are credited to individual employee's accounts pursuant to California Government Code section 20691.
- II. That the contributions made by the City of Beverly Hills to the California Public Employees' Retirement System, although designated as employee contributions, are being paid by the City of Beverly Hills in lieu of contributions by the employees who are members of the California Public Employees' Retirement System.
- III. That employees shall not have the option of choosing to receive the contributed amounts directly instead of having them paid by the City of Beverly Hills to the California Public Employees' Retirement System.
- IV. That the City of Beverly Hills shall pay to the California Public Employees' Retirement System the contributions designated as employee contributions from the same source of funds as used in paying salary.

- V. That the amount of the contributions designated as employee contributions and paid by the City of Beverly Hills to the California Public Employees' Retirement System on behalf of an employee shall be the entire contribution required of the employee by the California Public Employees' Retirement Law (California Government Code Sections 20000, et seq.).
- VI. That the contributions designated as employee contributions made by City of Beverly Hills to the California Public Employees' Retirement System shall be treated for all purposes, other than taxation, in the same way that member contributions are treated by the California Public Employees' Retirement System.

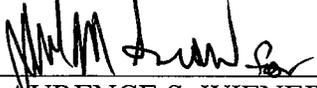
Adopted:

LILI BOSSE
Mayor of the City of
Beverly Hills, California

ATTEST:

(SEAL)
BYRON POPE
City Clerk

APPROVED AS TO FORM:



LAURENCE S. WIENER
City Attorney

APPROVED AS TO CONTENT:

JEFFREY C. KOLIN
City Manager



DON ROADS
Director of Administrative
Services/CFO