

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
5	01/28/13	Open	Action	01/22/13

Subject: Authorizing RT to Pick Up all Mandatory Employee Pension Contributions for "New Members" in Accordance with Section 414(h)(2) of the Internal Revenue Code

ISSUE

Authorize Regional Transit (RT) to Pick Up all Mandatory Employee Pension Contributions for "New Members" in Accordance with Section 414(h)(2) of the Internal Revenue Code.

RECOMMENDED ACTION

Adopt Resolution No. 13-01-____, Authorizing the Sacramento Regional Transit District to Pick Up All Mandatory Employee Contributions to the Sacramento Regional Transit District Retirement Plan for AFSCME, AEA and Non-Represented Employees, the Retirement Plan for Regional Transit Employees Who are Members of ATU Local 256, and the Retirement Plan Between the International Brotherhood of Electrical Workers Local Union 1245, AFL-CIO and Sacramento Regional Transit District in Accordance with Section 414(h)(2) of the Internal Revenue Code.

FISCAL IMPACT

None as a result of this action.

DISCUSSION

On January 1, 2013, the California Public Employee's Pension Reform Act of 2013 ("PEPRA") went into effect. PEPRA requires that any newly hired RT employee who first becomes a member of one of RT's three pension plans on or after January 1, 2013 i.e., a "New Member" he or she must contribute to the Plan an amount equal to at least 50% of the Plan's normal cost.

This mandate to contribute 50% is effective as to each New Member upon the later of: (1) January 1, 2013, or (2) in the case of a Collective Bargaining Agreement (CBA) or Memorandum of Understanding (MOU), the expiration date of the CBA or MOU or, if earlier, the date of any amendment, renewal, or other extension of the contract or MOU, if the mandatory contribution would impair a CBA or MOU in effect on January 1, 2013.

The Retirement Boards' actuary, EFI, has calculated the normal cost for each new member for calendar year 2013. According to EFI's calculation, 50% of normal cost for members of the Salaried Plan (AFSCME, AEA and MCEG) will be 4.75%; for members of the Contract Plan (ATU and IBEW) will be 5.75% of each new member's RT compensation for 2013, up to the Social Security wage base (\$113,700 for 2013). The maximum contribution rate cannot exceed 8%.

Hanson Bridgett, RT's Pension Plan Attorney, has opined that in order for these new member contributions to be withheld on a pre-tax basis, the Board must approve a resolution authorizing

Approved:

Presented:

Final 1/23/13

General Manager/CEO

Director, Human Resources

J:\Board Meeting Documents\2013\02 January 28, 2013\AB340 Contributions on Pretax basis Revised.DOC

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RT to "pick up" all mandatory employee contributions in accordance with Section 414(h)(2) of the Internal Revenue Code.

Staff recommends that the Board adopt the resolution authorizing RT to pick up all employee pension contributions required under "PEPRA" in accordance with Section 414(h)(2) of the Internal Revenue Code.

RESOLUTION NO. 13-01-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

January 28, 2013

AUTHORIZING THE SACRAMENTO REGIONAL TRANSIT DISTRICT TO PICK UP ALL MANDATORY EMPLOYEE CONTRIBUTIONS TO THE SACRAMENTO REGIONAL TRANSIT DISTRICT RETIREMENT PLAN FOR AFSCME, AEA AND NON-REPRESENTED EMPLOYEES, THE RETIREMENT PLAN FOR REGIONAL TRANSIT EMPLOYEES WHO ARE MEMBERS OF ATU LOCAL 256, AND THE RETIREMENT PLAN BETWEEN THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS LOCAL UNION 1245, AFL-CIO AND SACRAMENTO REGIONAL TRANSIT DISTRICT IN ACCORDANCE WITH SECTION 414(h)(2) OF THE INTERNAL REVENUE CODE.

WHEREAS, this Board anticipates that it will approve the amendment of the Sacramento Regional Transit District Retirement Plan for AFSCME, AEA, and Non-Represented Employees, the Retirement Plan for Regional Transit Employees who are Members of ATU Local 256, and the Retirement Plan between the International Brotherhood of Electrical Workers Local Union 1245, AFL-CIO and Sacramento Regional Transit District (the "Plans") to conform with the applicable requirements of the California Public Employees' Pension Reform Action of 2013 ("PEPRA"); and

WHEREAS, the Plans, as amended, will provide that new Plan members must make mandatory employee contributions to the Plan through payroll deduction in order to fund retirement benefits; and

WHEREAS, under Section 414(h)(2) of the Internal Revenue Code (the "Code") and related guidance from the Internal Revenue Service, such deductions from employees' compensation qualify for pre-tax treatment only if the Sacramento Regional Transit District ("RT") takes formal action to designate the deductions, for tax purposes, as contributions "picked-up" by RT; and

WHEREAS, this Board wishes to adopt this resolution in order to, in accordance with Section 414(h)(2) of the Code, designate amounts deducted from employees' compensation to fund benefits under the Plans as pick-up contributions; and

WHEREAS, RT will pick up all mandatory employee contributions to the Plans in accordance with Section 414(h)(2) of the Code and all guidance issued thereunder.

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, this resolution applies to all contributions that are required to be made by any employee of RT as a member of the Plans, on a regular, payroll deduction basis and which are reported to such Plans and credited to employee accounts.

THAT, although designated as employee contributions and deducted from employees' compensation, the contribution shall, for tax purposes, be characterized as "picked up" by RT in accordance with Code Section 414(h)(2), and shall be treated as paid by RT in lieu of contributions by the employee.

THAT, employees shall not have the option of choosing, directly or indirectly, to receive the contributions instead of having them paid by RT to the Plans.

THAT, RT shall pay to the Plans the contributions designated as employee contributions from the same source of funds as used in paying salary.

THAT, employee contributions that are picked up in accordance with this resolution shall result in the tax deferral of these contributions to the extent provided under the Code, Treasury Regulations and other guidance issued thereunder.

THAT, this resolution establishes and adopts RT's pick up practices in accordance with Revenue Ruling 2006-43.

THAT, RT shall comply with all reporting, contribution, and other administrative requirements established by the Plans with respect to all employees whose contributions are picked up in accordance with this resolution.

PATRICK HUME, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary