



EMPLOYEE RELATIONS BULLETIN

November 25, 1985

TAX DEFERRAL OF RETIREMENT CONTRIBUTIONS

To: Heads of All Departments of City Government
(except Water and Power)

The Mayor and Council have approved an ordinance providing that employee contributions made to the City Employees' Retirement System (CERS) shall be excluded from taxable income, until distributed at retirement or other termination of employment. The ordinance implements provisions of Internal Revenue Code Section 414(h)(2) and has the effect of treating retirement contributions as a form of deferred compensation.

Implementation will begin December 22, 1985. The January 15, 1986 paychecks will reflect a lower withholding amount and consequently a higher "amount deposited" (take home pay). The benefit will vary depending on individual retirement contribution rates and withholding rates.

The "amount earned" (gross earnings) and retirement contribution amounts will not be affected on individual paychecks. The W-2 for the 1986 tax year (distributed in 1987) will indicate the reduction from gross earnings of the total amount of retirement contributions.

This revised tax treatment of employee contributions will be implemented City-wide for all CERS members. Taxation of contributions to the Police and Fire pension systems will remain unchanged because of problems in meeting Internal Revenue Code Section 414(h)(2) requirements.

Employees should be notified of this change immediately.