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Date: October 3, 2008  
Reference No.:  
Circular Letter No.: 200-049-08  
Distribution: VI, XII, XVI  
Special:

# Circular Letter

**TO: PUBLIC AGENCIES, COUNTY SUPERINTENDENT OF SCHOOLS,  
SCHOOL DISTRICTS**

**SUBJECT: EMPLOYER "PICK-UP" - REVENUE RULING 2006-43  
DECEMBER 31, 2008 DEADLINE FOR ACTION**

**ATTENTION: FINANCE DIRECTORS, HUMAN RESOURCE DIRECTORS**

This Circular Letter is being sent to advise employers of Revenue Ruling 2006-43 concerning the pick-up of employee contributions to California Public Employees Retirement System (CalPERS), and of actions that an employer may be required to take before December 31, 2008 to ensure compliance with pick-up requirements.

## **BACKGROUND AND PURPOSE**

Internal Revenue Code (IRC) Section 414(h)(2) allows public agencies and school employers to designate required employee contributions as being "picked-up" by the employer and treated as employer contributions for tax purposes. The effect of a pick-up is to defer tax on employee contribution amounts until the member retires and receives retirement benefits, or separates from employment and takes a refund of contributions. Absent the 414(h)(2) provision applicable to governmental plans, employee contributions to a defined benefit pension plan qualified under Section 401(a) would automatically be after-tax contributions (e.g. taxable income to the employee at the time the contribution was made).

Since the early 1980s, CalPERS has taken steps to ensure that contracting agency and school employers have adopted and submitted to CalPERS appropriate written evidence of pick-ups prior to reporting tax-deferred member contributions to CalPERS. This Circular Letter is being sent as a reminder of the federal tax reporting requirements, to encourage each contracting agency and school employer who reports tax-deferred member contributions to review their documents and, if necessary, adopt conforming documentation prior to the deadline set by Revenue Ruling 2006-43. To view the ruling, visit [CalPERS online](http://www.calpers.ca.gov).

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**REVENUE RULING 2006-43**

Revenue Ruling 2006-43 provides, in general, that an employee contribution will not be treated as "picked-up" under IRC 414(h)(2) unless:

- (1) The employer specifies that the contributions, although designated as employee contributions, are being paid by the employer (this action must be memorialized in writing), and
- (2) The employer does not permit participating employees to opt out of the pick-up or to receive the contributed amounts directly instead of having them paid by the employer to the plan.

Revenue Ruling 2006-43 allows employers who do not have written evidence of a pick-up, but their actions show that they intended to establish and carry out a pick-up, to be treated as meeting the requirements of 414(h)(2) for past pre-tax contributions if the employer takes formal action in writing prior to December 31, 2008 with respect to future picked-up contributions. If formal action is not taken prior to December 31, 2008, only contributions taken after the written documentation is in place may be treated as picked-up.

**WRITTEN DOCUMENTATION**

Many of you offer a pick-up of employee contributions under a resolution approved by the IRS in a private letter ruling issued to CalPERS on December 6, 1985, (PLR 8609084). If your agency has adopted the approved resolution to implement 414(h)(2) pick-ups, you may continue to rely on that ruling and need not adopt a new resolution. This approved form, which is Sample E—Resolution for Employer Pick-up can be viewed at [CalPERS online](#). If you have not previously sent a copy of the resolution to us, or if you did not complete Sample E, but have other written documentation, please send a copy of your document or resolution to us immediately.

After 1985, CalPERS provided additional pick-up resolutions for adoption by contracting agencies that distinguishes whether the pick-up was to be actually paid by the employer or by the employee. When an employer pays the employee contributions, it is referred to as Employer Paid Member Contributions (EPMC). The employer may also report the value of EPMC as special compensation. Contracting agencies that adopted any of these resolutions were requested to submit the resolutions to CalPERS. Samples of Resolutions A through D can be viewed at [CalPERS online](#). You may continue to rely on these resolutions but you should review them and validate that the resolution covers all of the employees whose contributions are reported as tax-deferred. If you have not previously sent a copy of the resolution to us, please do so immediately.

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**CALPERS NEW BUSINESS ENVIRONMENT**

CalPERS is in the process of building and installing a new business reporting system. One of the design features will enhance CalPERS ability to maintain accurate and up to date information about contracting agency and school employer pick-ups. As a way of ensuring that our system will accurately record your agency's pick-up provision, CalPERS requires all affected agencies to provide a copy of their existing or future pick-up resolutions or other written documentation. This will ensure ongoing compliance with federal tax reporting requirements. The new system will validate that you have documentation on file with CalPERS before accepting tax-deferred member contributions. If documentation is not on file, your records will be rejected and will be held until the appropriate documentation is received.

**CONCLUSION**

If you are submitting tax-deferred contributions on behalf of your members, we request that you review your files for documentary evidence authorizing such employer pick-up of employee contributions. If you do not have evidence, please take steps to have your governing board adopt an appropriate resolution prior to December 31, 2008.

Please send a copy of your pick-up documentation to:

CalPERS  
Employer Services Division  
Compensation Review Unit  
P.O. Box 942709  
Sacramento CA 94229-2709

If you have any questions, please call the Employer Contact Center at 888 CalPERS or (888 225-7377).

Lori McGartland, Chief  
Employer Services Division

Visit the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov) (2008 Circular Letters) for more information on the following:

- 1 - Revenue Ruling 2006-43
- 2 - Sample Resolution E
- 3 - Sample Resolutions A - D



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Date: April 14, 2010  
Reference No.:  
Circular Letter No.: 200-019-10  
Distribution: VI, XII, XVI  
Special:

# Circular Letter

**TO: PUBLIC AGENCIES, COUNTY SUPERINTENDENT OF SCHOOLS,  
SCHOOL DISTRICTS**

**SUBJECT: EMPLOYER "PICK-UP" RESOLUTION UPDATE**

Circular Letter 200-049-08 was sent to advise employers of Revenue Ruling 2006-43 concerning the "pick-up" of employee contributions to CalPERS and to ensure the requirements of the "pick-up" were being met. Revenue Ruling 2006-43 provides in general that an employee contribution will not be treated as "picked-up" unless: (1) the employer specifies that the contributions, although designated as employee contributions, are being paid by the employer and (2) the employer does not permit participating employees to opt out of the pick-up or to receive the contributed amounts directly instead of having them paid by the employer to the plan. The information that was provided in the previous Circular Letter on requirements for an employer "pick-up" has not changed.

Some employers "pick-up" employee contributions for employees in specified groups or classes, but not necessarily for all employees in the organization. This Circular Letter clarifies that your "pick-up" resolution should identify whether all employees of the organization or all of the employees in specific groups or classes are subject to the "pick-up". Employers who only "pick up" employee contributions for all of the employees in certain groups or classes, should specify so in their resolution.

If you need to revise your resolution, you must submit a new one to CalPERS at the address below:

CalPERS  
Employer Services Division  
Compensation Review Unit  
P.O. Box 942709  
Sacramento CA 94229-2709

You may also fax your resolution to (916) 795-3005, attention Compensation Review Unit.

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The Public Agency Procedures Manual, which is located on CalPERS On-Line, contains a Resolution to Tax Defer Member Paid Contributions, Sample E, for your use. If you have any questions, or if you require assistance in preparing your resolution, please call our Employer Contact Center at **888 CalPERS** (or **888-225-7377**).

Lori McGartland, Chief  
Employer Services Division

Attachment