**Notice No.:** 84-005

**Date:** June 5, 1984

**Applies to:** All Employers

**Subject:** Substitute Senate Bill 4477 (Chapter 227, Laws of 1984)

Substitute Senate Bill 4477, known as the employer pickup bill, was enacted in the 1984 legislative session. It became effective September 1, 1984. This is not a retirement bill, but it does have an impact on the retirement systems and the members of those systems.

The bill makes provision for the employer to pay the employee's contributions to the retirement system by taking the contributions from the employee's gross pay. Under this bill, the gross pay is thus reduced for federal income tax purposes only. The gross pay for social security, retirement compensation reporting, retirement benefit calculations and all other purposes except for income tax reporting will be the pay including the retirement contributions. The practical effect of this procedure is to defer the individual's income tax on his/her own contributions until payment is received from the retirement system. The employee's take home pay will be increased by the amount of tax that would have been withheld on the amount of his/her retirement contributions.

The provisions of SSB 4477 are mandatory for all judges, state employees including the WSP, school district employees, educational service district employees, and for those higher education employees holding membership in the Public Employees' Retirement System (PERS) or the Teachers' t System (TRS). For employers of member of PERS not specified above and for members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), participation is optional and may begin on September 1, 1984 or on the first of any subsequent month.

Internal Revenue Service requires that an employer participating in this program must pay the employee retirement contribution for all employees who are members of the respective retirement system. The individual employee may not choose to make required employee contributions in after-tax dollars. If an employer has employees covered by two or more retirement systems, such as PERS and LEOFF, the PERS members may be covered and the

LEOFF not, or vice versa. However, if a LEOFF employer has both law enforcement and fire fighters, both groups must be covered or neither can be covered.

Employee contributions made under this program will be deposited to the individual member's account. They are refundable upon separation from service pursuant to the rules currently in place for each system. However, since taxes will be deferred under this program, the employees affected should understand that all such contributions will be subject to taxation in the year the refund is made.

An accounting of all contributions on which taxes have been paid will be maintained for each member by the Department of Retirement Systems (DRS) and will be reported to the member and, where appropriate, to the Internal Revenue Service (IRS) upon the member's termination from service or retirement.

SSB 4477 requires all employers to provide a complete explanation of the effects of these provisions to their employees at least 45 days in advance of its implementation. The Office of Financial Management (OFM) is preparing a standard letter which will be sent to all mandatory employers. We will supply a copy as a model for use by units of local government.

For those employers whose participation is optional, we must be notified at least 45 days prior to the beginning of the month in which the employer wishes to begin the pickup. Thus, if you wish to begin on September 1 with the mandatory employers, you must notify this department in writing no later than July 18, 1984. Thereafter, employers will be added on the first of the month following the 45-day notification period.

Only optional employers may choose to stop the pickup once they have started. Again, the 45-day notification is required and an employer can only enter or leave once in a 12-month period.

<u>Transmittal Reporting Requirements</u>

When an employer comes under the provisions of SSB 4477, the following relationships and reporting requirements will be in effect:

a. The employer will be responsible for collecting the employee's retirement contributions from each eligible employee. This responsibility applies to contributions on all compensation earned after the day on which SSB 4477 applies to the employer. For those participating mandatorily, the date is September 1, 1984. Employers should note that this category includes both employer and employee contributions for arrears billings based on compensation earned after the participation date. It is the employer's responsibility to recover the employee's portion after making the payment to this department. (<u>Note</u>: Arrears billings covering compensation earned prior to the participation date will continue as they have in the past. In those cases where the compensation period straddles the participation date, each portion is to be handled according to the rules which apply. If in doubt, please call us.)

b. <u>DO NOT</u> submit a transaction to recover employer paid employee contributions for separated employees without written approval from this department. (Refer questions to: Geary Sallee, Refund Section, (206) 753-3109 or SCAN 234-3109.)

c. The following specific coding instructions have been adopted to make your transition to the SSB 4477 program as simple as possible. The combination of the code you use and the date shown will automatically determine whether we treat the contribution as tax paid or tax deferred. The categories are as follows:

Deferred:

1. Current month transaction employee retirement contributions: Codes 00, 09, 23, 26, 30, or 39 as appropriate.

2. Arrears on compensation earned after your participation date: Codes 60 or 69*.

Not Deferred (Tax Paid)

1. Arrears on compensation earned before your participation date: Codes 60 or 69*.

2. Employee contribution transactions such as extra contributions, restoration of a refund withdrawal: Codes 90, 92, 93, or 96 as appropriate.

* Although the codes are the same for deferred or not deferred, the category will be determined by the reported arrears months.

Please refer any questions regarding transmittal reporting to Mr. Allen Leicht, (206) 753-2220 or SCAN 234-2220.

Robert L. Hollister, Jr.
Director