

Date: June 4, 2010

For ACTION

For INFORMATION

Board Agenda: Yes

No

FROM: Margaret Barkley Byess, Deputy Superintendent, Planning and Support Operations *MB Byess*

TO: Morton Sherman, Ed.D. *M Sherman*

COPY: The Honorable Yvonne Folkerts, Chair, and Members of the Alexandria City School Board

Executive Staff

TOPIC: Virginia Retirement System Member Contribution Pick-Up Resolution

BACKGROUND: The Virginia General Assembly, during the 2010 session, passed legislation to establish a second retirement plan for employees hired on or after July 1, 2010 with no prior Virginia Retirement System (VRS) Service. The new plan will be called the VRS Plan 2. Members of the new plan are required by this legislation to pay the 5 percent member contribution. However, School Boards may elect to pay some or all of the 5 percent member contribution on behalf of Plan 2 employees.

ACPS has the following options regarding payment of the member contribution:

- New employees pay the 5 percent member contribution.
- ACPS picks up between 1 percent and 5 percent of member contributions with balance paid by employees (if applicable).
- ACPS picks up the full five percent member contribution on a six-year, phase-in schedule.

The decision made regarding member contributions becomes effective July 1, 2010 for fiscal year 2011 (July 1, 2010 – June 30, 2011) and will remain in effect until another resolution is submitted.

RECOMMENDATION: Approve the attached resolution allowing ACPS, effective July 1, 2010, to pick up the 5% member contribution for the VRS Plan 2 members.

IMPACT: Allows ACPS to remain competitive with surrounding districts in recruitment and retention of staff.

CONTACT PERSON: Margaret Barkley Byess

Attachment:

Resolution to Authorize Pick-up of the Employee's Contribution to VRS Under § 414(h) of the Internal Revenue Code for Plan 2 Employees

ACPS#269-09-10

The Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2" employees). The legislation amended VA Code § 51.1-144 to provide that Plan 2 employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h). Internal Revenue Code § 414 (h) provides that a governmental employer may "pick-up" mandatory employee contributions and thereby cause the contributions to be made on a pre-tax basis. The formal written action required by Internal Revenue Code § 414 (h) to effect the pick-up has been taken by the General Assembly with the Governor's signature.

The legislation also permits each county, city, town, local public school board or other local employer to pick-up, in whole or in part (in 1 percent increments), the 5 percent member contribution as an additional benefit not paid as salary. The employer's optional payment of the 5 percent member contribution may be phased in over a period approved by the VRS Board not to exceed 6 years and may only be made on a uniform basis for all its Plan 2 employees. The formal written action required by Internal Revenue Code § 414 (h) to effect the pick-up using the alternatives permitted by the legislation must be taken by the governing body of the specific employing entity and must be effective only on a prospective basis.

Please indicate, by selecting one option below, how member contributions will be paid:

- This is to acknowledge that _____ (Employer Name) will have the employees pay the 5 percent member contribution according to the terms of the legislation. This action does not require action by your governing body. _____ (Authorized Signature) _____ (Date)
- This is to acknowledge that Alexandria City Public Schools (Employer) elects to pick-up some or all of the 5 percent member contributions as detailed in the following duly approved resolution.

RESOLUTION

Authorization to Pick-up the Employee's Contribution to VRS Under § 414(h) of the Internal Revenue Code For Plan 2 Employees

WHEREAS, the Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2 Employees"). The legislation stipulates that Plan 2 Employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h) on a pre-tax basis; and

WHEREAS, the legislation allows certain employers, including the **Alexandria City Public Schools**, to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary; and

WHEREAS, the election to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary shall, once made, remain in effect for the applicable fiscal year (July 1 - June 30) and shall continue in effect beyond the end of such fiscal year absent a subsequent resolution changing the way the 5 percent member contribution is paid; and

WHEREAS, employee contributions that are picked-up as an additional benefit not paid as salary are not considered wages for purposes of VA Code § 51.1-700 et seq. nor shall they be considered salary for purposes of VA Code § 51.1-100 et seq.; and

WHEREAS, the **Alexandria City Public Schools** desires to pick-up and pay its Plan 2 Employees' member contributions to VRS as an additional benefit not paid as salary in an amount equal to 5% of creditable compensation; and

WHEREAS, VRS tracks such picked-up member contributions and is prepared to treat such contributions as employee contributions for all purposes of VRS.

NOW, THEREFORE, IT IS HEREBY RESOLVED that effective the first day of **July, 2010**, the **Alexandria City Public Schools** shall pick-up member contributions of its Plan 2 Employees for Professional & Nonprofessional Groups to VRS as an additional benefit not paid as salary in an amount equal to 5% of creditable compensation subject to the terms and conditions described above; and it is further

RESOLVED that such contributions, although designated as member contributions, are to be made by the **Alexandria City Public Schools** in lieu of member contributions; and it is further

RESOLVED that nothing herein shall be construed so as to permit or extend an option to VRS members to receive the picked-up contributions made by the **Alexandria City Public Schools** directly instead of having them paid to VRS.

Adopted in Alexandria, Virginia this 10th day of June, 2010.

Authorized Signature Title