

Tier 2 Public Safety & Firefighter Enhancements

'Pick Ups' Require Formal Action

'Pick-up' Contributions – Key Points

» Employers may “pick-up” Tier 2 Public Safety/Firefighter Hybrid employees’ retirement contributions through formal, documented action.

» Formal action must be taken by July 1, 2020, to cover the employee contribution when the changes go into effect.

» [S.B. 56 \(2020\)](#) would require that if an employer “picks-up” the employee contributions for those in the Hybrid Plan, it must provide an equal non-elective contribution to employees in the Defined Contribution Plan.

» Employer “pick-ups” allow for deferral in income taxes. Employee contributions are generally taxable.

Employers may decide to pay for the employee portion of the additional plan costs

Enhancements to Tier 2 Public Safety & Firefighter retirement benefits will take effect beginning July 1, 2020. They apply to new and current employees in the Tier 2 Public Safety & Firefighter Retirement system for benefits earned after July 1, 2020.

Due to the cost of the plan enhancements, contributions to the Tier 2 Public Safety & Firefighter Hybrid plan will be made by the employer (14%) and the employee (2.27%).

However, an employer may “pick-up” the employee’s portion of the retirement contribution and treat it as an employer contribution under [IRS Code](#).

URS cannot and does not provide legal, financial, or tax advice. Accordingly, employers should consult their own legal advisor if they have

Helpful Links

» [IRS Guidance on Employer “Pick-Up” Contributions to Benefit Plans](#)

» [Revenue Ruling 2006-43](#)

» [Section 414\(h\)\(2\) of IRS Code](#)

» [Senate Bill 129 \(2019\)](#)

» [Senate Bill 56 \(2020\)](#)

questions concerning a “pick-up” plan.

In order to “pick-up” the employee contributions, an employer must take formal action to provide that the contributions on behalf of all Tier 2 Public Safety & Firefighter members, although designated as employee contributions, will be paid by the agency in lieu of employee

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The action may only apply prospectively and be evidenced by a contemporaneous written document (e.g., minutes of a meeting, a resolution, ordinance, or statute).

Employers must take formal action by July 1, 2020, to cover the employee contributions before the benefit enhancements go into effect.

If an employer “picks-up” the employee contribution, taxes on the pick-up

contribution may be deferred until the employee receives the contributions as either a refund after termination of employment or as retirement benefits. If an employer does not “pick-up” the employee contributions, they will generally be taxable at the time the contribution is made. An employer “pick-up” plan allows deferral of the income taxes on the employees required contribution amount.

In the 2020 legislative session, Senator Wayne Harper is proposing [Senate Bill 56](#) as a follow up to the changes from enhancements made in the 2019 session. This bill would require that if an employer “picks-up” the contributions for its employees, they must also pay an equal non-elective contribution to Tier 2 Public Safety & Firefighter members in the Defined Contribution Plan. ■

	Current Benefit	SB 129 New Benefit Beginning July 1, 2020 (subject to change)
Hybrid Option	1.5% Multiplier	2.0% Multiplier on service earned after July 1, 2020. All service accrued prior to July 1, 2020, will still be multiplied by 1.5%.
	Employer funds benefit at 12% of pay	Employer funds benefit at 14% of pay
	Employees currently not required to contribute to fund the pension benefit (because the pension contribution rate is less than the 12% employer cap).	Based on today's pension contribution rate, employees would add about 2.27% of their pay to fund the pension benefit. Employers may choose to pick up their employees' contributions.
401(k) Option	Employer contributes an amount equal to 12% of your salary into your 401(k).	Employer contributes an amount equal to 14% of your salary into your 401(k). Employers may choose to make additional 401(k) contributions.

» It does not open a new window for employees who have worked beyond a year to change their selection between the Hybrid Option and 401(k) Option.

» It applies to new and current employees in the Tier 2 Public Safety and Firefighter Retirement System, for benefits earned after July 1, 2020. These changes are not retroactive.