



California State Teachers'  
Retirement System  
Executive Office  
PO Box 15275  
Sacramento, CA 95851-0275  
www.CalSTRS.com

May 4, 2010

TO: All County Superintendents of Schools  
District Superintendents of Schools  
Community College Districts and  
Other Employing Agencies

FROM: Jack Ehnes  
Chief Executive Officer

SUBJECT: Employer Directive 2010-02  
***Supersedes Employer Directive 2002-02***  
Employer Reporting of Payroll Deductions for Accounts Receivables

**PURPOSE**

The purpose of this employer directive is to inform employers of the procedures required to establish and report **(a)** voluntary receivable payments (tax deferred and non-tax deferred) under Internal Revenue Code Section 414 (h)(2) and Education Code Section 22801(a), 22823, 22826(b), and 23203(c), and **(b)** mandatory receivable payments (non-tax deferred) for overpaid benefits under Education Code Section 22459.

**SCOPE**

The procedures described in this directive apply to employers that employ CalSTRS members who elect to make receivable payments through payroll deductions for voluntary and mandatory receivables. The procedures clarify the roles and responsibilities of the employer for establishing and reporting payroll deductions and remitting payments to CalSTRS. For the purpose of this directive, the term “employer” is used interchangeably to mean a county office of education, district office, or charter school.

## **DISCUSSION**

### Tax Deferred Payments (Pre Tax)

The Internal Revenue Service (IRS) has ruled that CalSTRS members may elect to have their payments for voluntary receivables (redeposit of previously withdrawn contributions, permissive or nonqualified service credit purchases) qualify as tax deferred payments if certain conditions are met:

- The employer must adopt a resolution to offer tax deferred payroll deduction installment payments to employees for voluntary receivables. If the resolution is adopted, the employer will no longer be permitted to make non-tax deferred payments for voluntary receivables through payroll deduction. (Members electing a non-tax deferred installment plan may make payments directly to CalSTRS.)
- Members must agree to and sign a Permissive Installment Payments Irrevocable Payroll Authorization (CalSTRS Form AR1481-4) for the voluntary receivable.
- The effective date for individual member tax deferred deductions cannot be any earlier than the effective date of the tax deferred resolution adopted by employers and the date Form AR1481-4 is signed by the member.
- Members may not make direct payments to CalSTRS while the Irrevocable Payroll Authorization is in effect.
- Members or employers may not terminate the Irrevocable Payroll Authorization prior to completion of the installment plan or termination of employment (retirement or change of employer)
- Members, who elect to make payments on a voluntary receivable through tax deferred payroll deductions, will have their taxable income reduced by the amount of the tax deferred deductions in the same manner that the tax deferred mandatory contributions to CalSTRS reduces their taxable income.

### Non-Tax Deferred Payments (Post Tax)

If an employer does not adopt a resolution for tax deferred payroll deductions, only non-tax deferred payroll deductions may be offered for voluntary receivables.

Education Code Section 22459 authorizes CalSTRS to instruct employers to collect payments from the salary of any member who fails to repay the teachers' retirement system for overpaid benefits. The payroll deductions for these collections must be non-tax deferred.

## **ACTION**

### **Tax Deferred Payments**

Once a request to purchase or redeposit service credit is made, CalSTRS mails the member a billing statement indicating the cost of the service credit and payment option information for cash payments, tax deferred rollovers, and payroll deductions. This section addresses the procedure for payroll deductions, as described on the Payroll Deduction Election (Form AR1481-3) and the Permissive Installment Payments Irrevocable Payroll Authorization (Form AR1481-4) of the billing statement.

- *Actions Required by Members and CalSTRS*

The Payroll Deduction Election offers 10 installment payment plans of 1 through 10 years. After selecting an installment plan, members complete forms (AR1481-3 and AR1481-4) and submit them directly to CalSTRS. Employers must not accept the forms directly from members and initiate the payroll deductions. The members must be instructed to submit the forms directly to CalSTRS.

Once CalSTRS receives the forms, members will receive a Member Confirmation letter (AR1925) with details of the payroll deduction. CalSTRS sends a copy of the Payroll Deduction Election, Permissive Installment Payments Irrevocable Payroll Authorization, and a Payroll Deduction Notification letter (AR1926) to the employer to initiate the payroll deduction. The letter will include the members' name, the last four digits of their social security number, employing district, pay contract, deduction amount, number of installments, total amount of deductions, effective pay period, and type of service credit being purchased.

- *Actions Required by Employers*

Employers will only deduct the payroll deduction amount and the number of installments selected by the member and agreed to by CalSTRS. Any change in deduction amounts or number of installments must be approved by CalSTRS.

Employers must notify CalSTRS immediately via [ar@calstrs.com](mailto:ar@calstrs.com) or (916) 414-4305 if a member changes a pay contract, takes a leave of absence, or terminates his or her employment.

- *Treatment of Delinquent Receivables*

If deductions become 120 days delinquent due to a leave of absence, all tax deferred amounts will be refunded to the employer who, in turn, must return the payments to the members as taxable income. If the 120 days delinquency is a result of termination of employment, members will be given the choice of prorated service credit for payments already received by CalSTRS or a refund. If a refund is requested by a terminated

employee, all tax deferred amounts will be refunded to the employer who, in turn, must return the payments to the member as taxable income.

- *Member Change of Employment*

If a member terminates employment with the employer where the deductions were originally assigned (initiated), and subsequently works for a new employer who offers tax deferred payroll deduction, the member may elect to continue deductions provided the prior employer assigns the Irrevocable Payroll Authorization agreement to the new employer. Within 30 days from the termination date, members must contact CalSTRS via an online message at their myCalSTRS.com, or (800) 228-5453, or [ar@calstrs.com](mailto:ar@calstrs.com) to obtain an Assignment and Assumption of the Irrevocable Payroll Authorization Agreement (CalSTRS Form AR1540) to be completed by the employers. CalSTRS will send the new employer a copy of the assignment and all documents associated with the member's election of tax deferred payroll deduction. The new employer must begin deductions per CalSTRS instructions.

If a member elects not to assign the tax deferred payroll agreement or if the assignment form is not received timely, the member will receive prorated service credit for deductions already received by CalSTRS. If the member wants to purchase the remainder of the service credit with new payment terms, the purchase cost will be calculated at the new (current) rates.

#### Non-Tax Deferred Payments

If an employer does not offer tax deferred payroll deductions for voluntary receivables, members will complete only the Payroll Deduction Election (AR1481-3) and return it to CalSTRS. Employers must not accept the form directly from members and initiate the payroll deductions. The members must be instructed to submit the form directly to CalSTRS.

Once CalSTRS receives the form, members will receive a Member Confirmation letter (AR1925) with details of the payroll deduction. CalSTRS sends a copy of the Payroll Deduction Election and a Payroll Deduction Notification letter (AR1926) to the employer to initiate the payroll deduction. The letter will include the members' name, the last four digits of their social security number, employing district, pay contract, deduction amount, number of installments, total amount of deductions, effective pay period, and type of service credit being purchased.

For members who currently are employed by a district and have an outstanding amount due to CalSTRS for benefit related overpayments, CalSTRS prepares a payroll deduction letter Form AR 1701 indicating the deduction amount, number of installments, and the effective pay period and sends it to the employer to begin mandatory receivable payroll deductions.

Processing Requirements – Tax deferred and Non-Tax Deferred Payments

Employers can use the Employer Application Suite to report all voluntary receivable (tax deferred and non-tax deferred) deduction payments. The Employer Application Suite and instructions are available on [www.calstrs.com](http://www.calstrs.com) or the Secure Employer Web site (SEW) for downloading. Deductions for mandatory receivables may also be reported using this program or may continue to be reported on the regular monthly Report of Contributions (F496) as a code 4.

If an employer reports deductions via the Employer Application Suite, the employer needs to make sure those deductions are not also inadvertently reported on the Report of Contributions (F496). If deductions are reported on the Report of Contributions, the employer must not report those same deductions via the Employer Application Suite. In the event a deduction is erroneously reported on the F496 report, the employer must submit a correction in the form of a negative transaction line for the deduction on the next monthly report.

Upon installation of the Employer Application Suite, the employer must input the detail for all employees currently enrolled in payroll deductions. The employer will be responsible for the accuracy of the detail entered into the database and will maintain the database by adding, editing or deleting detail as needed. The detail will consist of the employee's full name, Social Security Number, county and district code, dollar amount of the monthly deduction and tax deferred status indicator.

In an effort to safeguard and protect members' confidential data, employers must transmit the payroll deduction report electronically via the SEW, regardless of the number of employees on the report. For access to SEW, employers must contact the employer administrator at their county office. Employers must not mail a hard copy of the report with their payroll deduction payment. CalSTRS will return any payroll deduction payment if an employer does not use SEW to transmit the report.

Employers will begin deducting the tax deferred and non-tax deferred payments in the current pay period if they receive forms AR1481-3, AR1481-4, AR1926, or AR 1701 from CalSTRS on or before the 15<sup>th</sup> of the month. Otherwise, the deductions will start the next pay period.

Within fifteen days immediately following the pay period in which the payments are deducted, employers will submit the tax deferred and non-tax deferred payroll deduction file for the pay period via the SEW and remit funds to CalSTRS for the total deductions on the report. The payroll deduction file and payment shall be delinquent on the sixteenth day thereafter and CalSTRS may assess penalties for late reports or remittances.

Employers shall not reduce subsequent payroll deduction payments by any previous erroneous or overpaid deductions submitted on a payroll deduction report. Any tax deferred deductions submitted in error to CalSTRS will be refunded to the employer. Non-tax deferred deductions will be refunded to the member.

CalSTRS provides employers a monthly voluntary receivables statement with details on new payroll deductions, deduction changes, refunds of excess payments, and delinquent accounts. The statement is available on SEW for employers to download and use for reconciling their members' payroll deduction records with CalSTRS to avoid delinquencies and overpayment of deductions.

### **USING THIS DIRECTIVE AS A REFERENCE**

This directive is intended to serve as a reference for the employers of CalSTRS members, who elect to offer tax deferred and non-tax deferred payroll deductions. Please refer to it whenever any issues related to this program arise.

### **CONTACT**

Please direct questions regarding this employer directive or the procedures to CalSTRS Accounts Receivable unit at (916) 414-4305 or e-mail [ar@calstrs.com](mailto:ar@calstrs.com).

#### Attachments:

Form AR1481-3

Form AR1481-4

Form AR1925

Form AR1926

Form AR1540

Form AR1701



Name:

Type of Service: REDEPOSIT

Client ID:

AR1481-3

## PAYROLL DEDUCTION ELECTION

Years	Service Credit Total	Contributions + Employer Costs + Member Interest = Due	Total Due
1989-1992	1.0000	\$2,151.85	\$4,148.56
			\$6,300.41

To guarantee the cost of this service credit, you must submit your payment option postmarked by 07/13/2009. The service credit and total contributions and interest paid will post to your CalSTRS account once the purchase is completed.

## Payroll Deduction Payment Plans

Please select an installment plan:

Installments	Amount	Installments	Amount
12 ( 1 year )	\$537.73	72 ( 6 years)	\$101.75
24 ( 2 years)	\$275.91	84 ( 7 years)	\$89.40
36 ( 3 years)	\$188.71	96 ( 8 years)	\$80.16
48 ( 4 years)	\$145.17	108 ( 9 years)	\$73.01
60 ( 5 years)	\$119.10	120 (10 years)	\$67.30

RETURN THIS FORM TO CALSTRS TO INITIATE THIS PAYROLL DEDUCTION ELECTION.

NOTE: If your employer offers tax deferred payroll deductions, the Irrevocable Payroll Authorization form on the reverse side of this election must be signed and submitted to CalSTRS before deductions begin. Once tax-deferred payroll deductions begin, the installment amount and the time period for this purchase cannot be changed.

If you would like an alternative installment plan, complete the fields below and return this form to CalSTRS. CalSTRS will recalculate your installment plan and send you a new Payroll Deduction Election form.

\_\_\_ I elect to pay by a different installment amount of \$ \_\_\_\_\_ (Minimum of \$67.30.)

OR

\_\_\_ I elect to pay for \_\_\_ # of installments (Not to exceed 10 years.)

County Name \_\_\_\_\_ District Name \_\_\_\_\_

Please visit our website at [www.calstrs.com](http://www.calstrs.com) to calculate various installment plans.

## NOTE:

- \* If your payments become 120 days delinquent, all funds received by CalSTRS may be refunded and the purchase terminated. Tax deferred payments will be refunded to your employer for taxable distribution.
- \* If you retire before completing your installment payments, you must complete the purchase within 30 days after your retirement date.
- \* Installment payments carry a compounded annual interest rate of 5.25%.
- \* Contact CalSTRS immediately if you are changing employers while making payroll deduction installments.

I have read and understand the terms of this agreement.

Signature \_\_\_\_\_ Date \_\_\_\_\_





Client ID:

AR1481-4

**PERMISSIVE INSTALLMENT PAYMENTS  
IRREVOCABLE PAYROLL AUTHORIZATION**

California State Teachers'  
Retirement System  
Accounting Cash Receipts  
P.O. Box 161235  
Sacramento, CA 95816-1235  
800.228.5453  
www.calstrs.com

A California State Teachers' Retirement System (CalSTRS) member, pursuant to statute, is permitted to redeposit member contributions previously withdrawn and/or elect to purchase permissive service credit. Any amounts due may generally be paid by the member directly to the retirement system or the member may request, and the employer may permit, deductions through payroll.

I understand that my employer has adopted a resolution under the "pickup" tax deferred provisions of Internal Revenue Code Section 414(h)(2) for payroll deduction and that tax deferral of my redeposit and/or purchase of permissive service requires this irrevocable payroll deduction authorization.

I hereby authorize and understand that this authorization is binding and irrevocable.

1. Deductions are to be made from my salary, for a total of \_\_\_\_ months in the amount of \$ \_\_\_\_\_ per month.
2. These payments through payroll deduction are in addition to the required contributions to CalSTRS.
3. For the effective period of this agreement, I understand that CalSTRS will only accept payment from my employer and not directly from me.
4. My employer is obliged to make payment pursuant to this agreement only if there are sufficient funds from my earnings to do so after any other mandatory deductions.
5. This agreement shall be binding and remain in effect until: a) completed and the balance of the service credit purchase is paid in full, or b) upon termination of services (retirement, change in employer, or death of a member). Upon change of employer, this contract may be reassigned, provided subsequent employer agrees to terms set forth in this authorization. Assignment of Contract must be completed by the new employer in order to retain the terms of this agreement.

I UNDERSTAND THAT IF THE MONTHLY DEDUCTION AUTHORIZED IN THIS DOCUMENT BECOMES 120 DAYS DELINQUENT, CALSTRS WILL CANCEL THE ELECTION. ONCE THE ELECTION HAS BEEN CANCELLED, CALSTRS WILL REFUND ALL PAYMENTS RECEIVED TO THE EMPLOYER UNLESS APPLICABLE LAW ALLOWS FOR THE SERVICE CREDITS PURCHASED TO BE APPLIED TO THE MEMBER'S ACCOUNT UPON THE MEMBER'S REQUEST. IF THE PAYMENTS ARE REFUNDED, THE EMPLOYER WILL BE RESPONSIBLE TO DISBURSE THE FUNDS TO THE EMPLOYEE, SUBJECT TO ANY TAX WITHHOLDING.

County Name \_\_\_\_\_ District Name \_\_\_\_\_

I authorize the above irrevocable payroll deductions under the conditions as specified.

Employee Name \_\_\_\_\_

Employee Last Four of SSN \_\_\_\_\_

Employee Signature \_\_\_\_\_ Date \_\_\_\_\_





July 16, 2009

California State Teachers' Retirement System  
P.O. Box 15275  
Sacramento, CA 95851-0275  
800-228-5453  
www.CalSTRS.com

[MEMBER NAME]  
[ADDRESS]  
[CITY, STATE, ZIP]

Client-ID [XXXXXXX]  
AR 1925

Re: Payroll Deductions

Dear [MEMBER NAME]

CalSTRS has received your request to purchase or redeposit service credit through payroll deductions. The following information has been provided to your employer for initiation of the payroll deduction:

Type of Service Credit:	REDEPOSIT OF PREVIOUSLY REFUNDED CONTRIB
Amount of Service Credit:	1.000
Deduction Amount:	\$67.30
Number of Installments:	120
Total Deduction Amount:	\$8,076.00
Effective Pay Period:	July 2009
Employer:	DEPARTMENT OF PERSONNEL ADMINISTRAT

The service credit and total contributions will post to your account when the purchase is complete. If your pay contract changes or you change employers during the term of your payroll deduction agreement, please contact Accounts Receivable at ar@calstrs.com or 800-228-5453.

Sincerely,

Accounts Receivable





July 16, 2009

California State Teachers'  
Retirement System  
P.O. Box 15275  
Sacramento, CA 95851-0275  
800-228-5453  
www.CalSTRS.com

DEPARTMENT OF PERSONNEL ADMINISTRATION  
C/O STRS  
PO BOX 15275  
SACRAMENTO CA 95851-0275

Client-ID [XXXXXXXX]  
AR 1926

Re: Payroll Deduction Notification

Dear Payroll Officer:

A CalSTRS member has elected to purchase or redeposit service credit. Please use the information provided below to initiate payroll deductions for your employee:

Employee Name:	[XXXXXXXX]
SSN:	XXX-XX-7955
Report Unit:	59001
Pay Contract:	12MONTH
Deduction Amount:	\$67.30
Number of Installments:	120
Total Amount:	\$8,076.00
Effective Pay Period:	July 2009
Type of Service Credit:	REDEPOSIT OF PREVIOUSLY REFUNDED CONTRIB

The first deduction must begin with the effective pay period stated above and continue each month per the member's pay contract until the account is paid in full or the member retires or terminates employment. If the member terminates employment or the pay contract changes, please contact Accounts Receivable at ar@calstrs.com or 800-228-5453.

Sincerely,

Accounts Receivable

Attachments:

AR1481-3: Member's Payroll Deduction Election Form  
AR1481-4: Permissive Installment Payments Irrevocable Payroll Authorization Form  
(If Tax-Deferred Deductions)



**ASSIGNMENT AND ASSUMPTION  
OF IRREVOCABLE PAYROLL AUTHORIZATION AGREEMENT**

**This assignment is made on \_\_\_\_\_ between Assignor  
(Date)  
and Assignee \_\_\_\_\_ . Assignor has  
(Former Employer) (New Employer)  
entered into irrevocable payroll authorization agreement (attached as Exhibit A)  
with \_\_\_\_\_, an employee of the Assignor. The Assignor and  
(Employee/Member)  
employee wish to assign the Agreement to the new employer of employee, who will assume  
all the responsibilities and duties required under the Agreement. The Assignee warrants  
that it has an approved Resolution on file with CalSTRS and offers pre-tax payroll  
deductions with the irrevocable payroll authorization agreement for purchase of  
permissive service credits. By signature below, the parties agree to be bound by this  
Assignment and Assumption of the Irrevocable Payroll Authorization Agreement.**

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<u>Assignor</u>	<u>Assignee</u>
County Name: _____	County Name: _____
Employer Name: _____	Employer Name: _____
Authorized Representative: _____	Authorized Representative: _____
(signature)	(signature)
_____ (print name)	_____ (print name)
_____ (telephone #)	_____ (telephone #)

**I agree to the Assignment and Assumption of the Irrevocable Payroll Authorization Agreement.**

Employee: \_\_\_\_\_ (signature)      Client ID: \_\_\_\_\_ (CalSTRS Client ID#)

Employee: \_\_\_\_\_ (print name)      Date: \_\_\_\_\_

**Please fax signed form to CalSTRS at (916) 414-4394**





California State Teachers' Retirement System  
Accounting Division-Accounts Receivable Unit  
P.O. Box 15275 MS-11  
Sacramento, CA 95851-0275  
800.228.5453  
www.calstrs.com  
AR1701

DATE

NAME  
ADDRESS  
CITY, STATE, ZIP

Name:  
SSN:  
District Number:

The amount of [\$ x,xxx.xx] due to CalSTRS by [MEMBER NAME] shall be collected through mandatory payroll deductions in accordance with Section 22459 of the California Education Code. The member has failed to arrange for payment on the overpaid benefit despite CalSTRS' attempts to arrange a payment plan.

Repayment shall begin [MONTH YEAR] and a total amount of [\$ x,xxx.xx] shall be collected. Please arrange the payroll deductions plan as follows:

Receivable Type	Deduction Amount	Number of Deductions	Deduction Begin Date	Deduction End Date
XX	\$XXX.XX	XX	MONTH YEAR	MONTH YEAR
XX	\$XX.XX	X	MONTH YEAR	

Mandatory receivables must be deducted on a **non-tax deferred** basis in accordance with Administrative Directive 95-04. The payroll deductions may be reported to CalSTRS via the tax deferred PC Program or by using the F-496 reporting process.

Please contact me at (916) xxx-xxxx if you are unable to comply with this request and/or if this member terminates employment in your county.

Sincerely

Name, Title  
Receivables Unit

CC: (Members Name)