

Employer Information Circular

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Policy Clarification for Irrevocable Pre-Tax Payroll Deduction Agreements

The purpose of this circular is to clarify that Internal Revenue Service regulations prohibit changes to the terms of the Irrevocable Payroll Authorization Agreements (Form AC-0194) originally agreed to between the employee and the employer when the employee is authorizing pre-tax payroll deductions to purchase permissive or redeposited service credit. Consequently, requests to change Irrevocable Payroll Authorization terms will not be processed.

Once the agreement is entered into, both parties will be locked into all binding and irrevocable terms. The irrevocable agreement is terminated only when the payroll payments are: a) completed and the balance of service credit purchase is paid in full, or b) upon termination of services (retirement, change in employer, or death of a member).

The only exception to this prohibition is when the member's employment contract monthly payment changes (i.e., 10-months, 11-months, or 12-months) during the time the original Irrevocable Payroll Authorization (AC-0194) agreement is in effect. The monthly payroll deduction will be increased or decreased according to the annual amount due.

➤ Example: Member and employer enter into an Irrevocable Payroll Authorization agreement to pay for the purchase of redeposit service credit costing \$6,000.

Member works a 12-month contract:

- Member chooses to make 60 pre-tax payroll deductions for \$100 per contracted pay period (60 x \$100=\$6,000).
- Member pays \$1,200 (12 mo. x \$100) per year

Member's employment payroll term changes to a 10-month contract:

- Member's pre-tax payroll deductions increase from \$100 to \$120 per contracted pay period.
- Member still pays \$1,200 (10 mo. x \$120) per year

For questions regarding this circular, please contact the Accounts Receivable unit via e-mail ar@calstrs.com or call (916) 229-0934.