



When an Employer Pays for Member Past Service or ERI Costs

Tax Letter No. 15 7/2010

This letter is for informational purposes only and should not be construed as tax advice. Should you have any further questions, we encourage you to contact your tax advisor.

This letter explains the impact on IMRF and federal reporting when an employer wants to pay for a member's past service costs, or for a member's Early Retirement Incentive (ERI) cost and provides instructions for how to pay a member's cost using First Data Government Solutions (formerly govONE) EFT.

Paying a member's past service cost

An employer who wants to pay for a member's past service cannot simply send a payment to IMRF. Whenever an employer pays for something on behalf of a member, that payment counts as income for that member. Paying for a member's past service can be thought of as paying the member a bonus.

Since the amount being paid for the member's past service is **equivalent to a bonus**, it is:

- Taxable income to the member
- Reported on the member's W-2
- Subject to withholding for Social Security and Medicare
- Reported to IMRF (if the member participates in IMRF) and subject to IMRF contributions

IMRF must record a member's contributions as either tax-deferred or previously taxed. If the employer payment (bonus) is to be made to the member as **tax-deferred**, we will accept payments from an employer on behalf of a member only through IMRF's Tax-deferred Payroll Deduction Program (TPDP). For TPDP contracts entered into before the TPDP plan was discontinued, the amount the employer pays for the member's past service:

- Would not be subject to income tax (for amount sent to IMRF)
- Must be properly reported on the member's W-2
- Subject to withholding for Social Security and Medicare
- Must be reported as IMRF wages on the employer's monthly IMRF wage report

(To pay via Tax-deferred Payroll Deduction Program (TPDP), follow instructions on how to sign on to First Data, and follow Exhibits 1 & 2. After signing on to First Data, continue to Exhibit 5.)

However, if the employer payment (bonus) is to be made to the member as **previously taxed**, the employer can include the amount in the member's paycheck and the member can send a personal check to IMRF.

(To pay a member's Past Service Cost, follow instructions on how to sign on to First Data, and follow Exhibits 1 & 2. After signing on to First Data, continue to Exhibit 4.)

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If employer pays bonus-related withholding and contributions (not using TPDP)

If the employer pays the Social Security, Medicare, and IMRF contributions that result from the bonus, the amount reported as IMRF wages will be higher than the amount sent to IMRF for past service.

For example:

Employer payment (bonus amount):	\$113.83
Social Security and Medicare withholding	\$8.71
IMRF contributions	<u>\$5.12</u>
Net amount available to pay toward past service cost	\$100.00

Based on this example, \$113.83 is included for Social Security and Medicare and is reported to IMRF as wages. The taxable wages for the W-2 is \$108.71 (\$113.83 less IMRF contributions). If you need help calculating this higher amount, please call your IMRF Field Representative or an IMRF Member Services Representative at 1-800-ASK-IMRF (1-800-275-4673).

Paying a member’s Early Retirement Incentive (ERI) cost

IMRF is not suggesting that an employer pay the member’s ERI cost. This information is provided in the event such action is considered.

Employers may wish to pay for a member’s ERI cost. When an employer pays the member’s ERI cost, the amount of that payment is **not** IMRF wages. The amount should not be included in any monthly wage report and the IMRF deduction should not be taken.

To ensure that all payments are credited properly, **please do not send payment for any ERI costs until** IMRF has calculated the final cost and you have received the employer ERI invoice remittance form (after the final wages are reported).

An employer can pay the member’s ERI cost in the following ways: *(To pay a member’s Early Retirement Incentive (ERI) Cost, follow instructions on how to sign on to First Data, and follow Exhibits 1 & 2. After signing on to First Data, continue to Exhibit 3.)*

Although the payment is not reported as IMRF wages, the amount may be reportable for income tax, Social Security, and Medicare. If the employer has passed a resolution as shown on IMRF Form 6.85, “Suggested Resolution for Employer Pick-Up (Payment) of Member Contributions Required for Purchase for Extra Service Under the IMRF Early Retirement Incentive,” the payment will not be subject to income tax withholding, Social Security, and Medicare deductions (see the following table).

	Social Security and Medicare Wages	Taxable on W-2	Report as IMRF Wages
Employer pays (with Resolution 6.85)	No	No	No
Employer pays (without Resolution 6.85)	Yes	Yes	No

Signing on to First Data EFT

Procedures for employers who pay via First Data EFT:

- Visit the First Data site:
 - From the IMRF website Employer home page or Employer Access, or
 - Go directly to the First Data payment page at <https://www.payments-govonesolutions.com/imrf>
- Enter your employer's EFT number and PIN Code (Exhibit 1)
- Select Payment Type (Exhibit 2)

EXHIBIT 1

Log On
Please enter your account information to access our secure system.

IMRF EFT Number: ← Enter EFT

PIN Code: ← Enter PIN #

If you are having difficulty using the govONE Solutions web site, call govONE Solutions at 1-800-662-6311. If you have a question about wage reporting, employer payments, or any other IMRF related question, call IMRF at 1-800-ASK-IMRF (1-800-275-4673).

EXHIBIT 2

Select Payment Type ← Select Payment Option
Please select one of the following payment options:

IMRF Payment Options

- [Wage Report Contribution \(Regular Contribution, SLEP, ECO I, ECO II, Minimum Contribution\)](#)
- [Advice Payment](#)
- [Tax Deferred Payroll Deduction \(TPDP\)](#) See Exhibit 5
- [Employer ERI Cost](#)
- [Member ERI Cost](#) See Exhibit 3
- [Member Past Service \(After Tax\)](#) See Exhibit 4
- [Additional Employer Pension Obligation Payment](#)

EFT Links

- [Make a Payment](#)
- [Cancel a Payment](#)
- [Payment Inquiry](#)
- [FAQs](#)
- [Log Off](#)

4 Easy Steps to Make an IMRF Payment

1. Select Payment Type
2. Enter Payment Information
3. Confirm Payment Information
4. Receive Payment Acknowledgement

Select Payment Type:

1) Not reportable as IMRF wages

A. Employer payment is **not** meant to be subject to income tax withholding or Medicare and Social Security deductions:

- Select the **Employer payment** payment type

B. Employer payment **is** meant to be subject to income tax, Social Security and Medicare Withholding:

- Select the **After tax payroll deduction** payment type

2) Reportable as IMRF wages

If the employer wants the payment to the member to be reported as IMRF wages:

- Select the **After tax payroll deduction** payment type

IMRF Online
Illinois Municipal Retirement Fund

Pay Online

EFT Links

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4 Easy Steps to Make an IMRF Payment

1. Select Payment Type
2. Enter Payment Information
3. Confirm Payment Information
4. Receive Payment Acknowledgement

Make a Payment

Please enter the following payment information.

By selecting the Member Past Service Payment you are certifying that the amount is an after tax payment for the member.

IMRF EFT Number:

Payment Type Description: Member Past Service (After Tax)

SSN: ← Enter Member SSN
(format: xxxxxxxxx)

Payment Amount: ← Enter Payment Amount
(example: 1234.56)

Bank Account Debit Date: ← Enter Bank Account Debit Date
(format: MMDDYY)

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Make a Payment

Please enter the following payment information.

IMRF EFT Number:

Payment Type Description: Tax Deferred Payroll Deduction (TPDP)

Month and Year the deductions were made: ← Enter Month & Year deductions were made
(format: MMY - for multiple)

TPDP Payment Amount: ← Enter Payment Amount
(example: 1234.56)

Bank Account Debit Date: ← Enter Bank Account Debit Date
(format: MMDDYY)