When an Employer Pays for Member Past Service or ERI Costs

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 Corporation 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

When an 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 Corporation, and follow Exhibits 1 & 2. After signing on to First Data, continue to Exhibit 4.)

If employer pays bonus-related withholding and contributions
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: $5.12
- 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.

Employers wishing to pay for a Member’s ERI cost may wish to consider passing a resolution (see IMRF Resolution Form 6.85). With the resolution on file with IMRF, the amount paid by the Employer is not taxable to the Member. However, in order to comply with IRS rules, the Employer must pay for the ERI cost of all Members going out under ERI using the same formula (i.e., 100%, 50%, etc.).

Employers wishing to pay the ERI cost for only some of the Members retiring under ERI cannot pass the resolution. In this case, the payments are taxable to the Members.

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 Corporation, 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).

<table>
<thead>
<tr>
<th></th>
<th>Social Security and Medicare Wages</th>
<th>Taxable on W-2</th>
<th>Report as IMRF Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer pays (with Resolution 6.85)</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Employer pays (without Resolution 6.85)</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
Signing on to First Data Corporation EFT
Procedures for employers who pay via First Data Corporation EFT:

- Visit the First Data site:
  - From the IMRF website Employer home page or Employer Access, or
  - Go directly to the First Data Corporation 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.

<table>
<thead>
<tr>
<th>Field</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMRF EFT Number</td>
<td></td>
</tr>
<tr>
<td>PIN Code</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 2

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

<table>
<thead>
<tr>
<th>Payment Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage Report Contribution (Regular Contribution, SLEP, ECO I, ECO II, Minimum Contribution)</td>
</tr>
<tr>
<td>Advice Payment</td>
</tr>
<tr>
<td>Tax Deferred Payroll Deduction (TPDP)</td>
</tr>
<tr>
<td>Employer ERI Cost</td>
</tr>
<tr>
<td>Member ERI Cost</td>
</tr>
<tr>
<td>Member Past Service (After Tax)</td>
</tr>
<tr>
<td>Additional Employer Pension Obligation Payment</td>
</tr>
</tbody>
</table>
Exhibit 1
Paying a member’s Early Retirement Incentive (ERI)

There are two payment types that can be selected on this screen.

Select Payment Type:

1. “Employer Payment” *(Resolution 6.85 must be in file with IMRF.)*
   A. Use this payment type when the employer is paying the member’s ERI cost for all retirees, the governing body has passed the required resolution and has filed Form 6.85 with IMRF.
   B. The payment is not IMRF, federal, Social Security or Medicare wages.

2. “After-tax Payroll Deduction” *(reported on employee W-2)*
   A. Use this payment type when the employer has not passed the required resolution.
   B. The payment is not IMRF wages, but is considered as wages for federal, Social Security and Medicare purposes.
Exhibit 14
Paying a member’s Past Service Cost

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: XXXXXXX
Payment Type Description: Member Past Service (After Tax)
SSN: [Enter Member SSN]
Payment Amount: [Enter Payment Amount]
(example: 123456)
Bank Account Debit Date: [Enter Bank Account Debit Date]
(example: MMDDYY)

Continue