

September 2001

TO: Superintendent of Schools and/or Financial Officers
FROM: Tommy C. Beavers, Executive Secretary
SUBJECT: TAX-DEFERRED INSTALLMENT PURCHASES

The Teachers' Retirement System has received permission from the Internal Revenue Service to allow active members of the System to make tax-deferred installment purchases of past service credits. After receiving the private letter ruling TRS then promulgated new administrative rules to implement the payment plan. (See Supplemental Administrative Rule OAC 715:10-5-35)

Tax-deferred installment payments will make member purchases more affordable, since the reduction in a member's take-home pay will be less than if the member made direct payments to TRS in after-tax dollars. TRS believes this program will be very beneficial to a large number of active members. It will allow your school to assist members making purchases of all types of service credits, including redeposit of previously withdrawn accounts, purchase of past service credits, and catch-up contributions for prior years.

To qualify installment payments as tax-deferred (or pre-taxed) two things must be accomplished:

- 1) the employer (school) must adopt a resolution to participate in the installment plan program and file the resolution with TRS (See TRS Form 110.S2), and
- 2) the member and employer must complete an irrevocable payroll reduction authorization form (See TRS Form 110.28).

This will also require change in your school's payroll process. The school must be willing to make the required deductions from each member's pay and remit the payment monthly to the TRS Office. The monthly payment for member(s) must be accompanied by a list that includes the name of each member, the member(s)' social security number and the exact amount of each member(s)' monthly installment. The warrant covering the total installment payment(s) for the month must be separate from the regular remittance report made for members of the Retirement System. The amounts deducted from each member's pay for installments under this program should not be included as taxable income on year-end W-2 forms.

Both the member and school must realize the installment contract cannot be broken, except by the member's termination of employment, retirement or death.

TRS will continue to accept installment payment deductions on an after-tax basis from those school districts currently making such payments for its members. However, beginning January 1, 2002, TRS can only accept tax-deferred (or pre-tax) installment payments from schools. Members who want to continue making installments on an after-tax basis may do so, but will be required to make such payments directly to TRS via personal checks.