

Directly from the SSDT USPS manual:

Types of Retirement

There are three types of retirement. All three types of retirement are classified as 403(a) plans.

1. Regular → **400/450** record; in most cases, only used for **employer** contributions

Regular retirement is a retirement contribution withheld from wages after taxes are figured. For example, if an employee's gross pay is \$1100, taxes are figured on the gross pay amount (\$1100), then retirement contributions are withheld. The amount paid into the retirement system is taxable.

2. Annuitized → **590/591** record; in most cases, only used for **employee** contributions

Annuitized retirement, also known as pick-up, is a retirement contribution withheld from pay before taxes are figured. For example, if an employee's gross pay is \$1100, the retirement contributions (and other annuities) are withheld, then federal and state taxes are figured on the remaining amount of gross pay. The system calls the remaining pay 'Adjusted Gross'. The amount paid into the retirement system is tax-sheltered. These amounts become taxable when the employee receives a refund or retirement benefits.

3. Pick-up on pick-up → **690/691** record; only used when **employer pays employee's** share

Pick-up on pick-up is a retirement contribution where the board pays all or a portion of the employee's share of annuitized retirement on behalf of the employee. The liability increases for the board since they agree to pay what is normally an employee paid contribution, as a benefit to the employee. Even though the board pays all or a portion of the employee's share of annuitized retirement, the employee has all rights to collecting the benefit at time of refund or retirement.

In addition, if the pick-up benefit is considered a fringe benefit/extra compensation to the employee, then retirement must be figured on the pick-up benefit and submitted to the retirement system. Additional retirement amounts are not submitted to the retirement system if the pick-up benefit is not considered a fringe benefit/extra compensation.

If the pick-up benefit is considered a fringe benefit/extra compensation, the board may agree to pay all the retirement contributions (both board and employee shares) on the pick-up benefit. In some cases, the board and employee split the retirement contributions on the pick-up benefit.

Sample STRS New Calculations beginning July 1, 2014

Regular Retirement

This is an example of regular retirement where the employee share of retirement contributions are paid by the employee. The gross pay is not reduced for federal and state income taxes by the amount of the retirement contributions. The full amount of gross pay is considered taxable.

The system requires the following deduction records to be set up for regular retirement:

- STRS
- 450 (Employer Share 14%)
- 450 (Employee Share 12%)

STRS:	
Employee Salary per payroll	\$1100.00
Remaining Net Pay	\$1100.00
Employee Regular Retirement amount 12% from 450	132.00
Employer Regular Retirement amount 14% from 450	154.00
Taxable Gross	\$1100.00
Gross Amount for STRS Retirement Purposes	\$1100.00

Full Annuitized/Pick-up Retirement

This is an example of the salary reduction pick-up which is commonly referred to as "annuitized" or "pick-up". The retirement contributions are withheld from the employee's wages, but the gross figure used to calculate federal and state income tax is reduced by the amount of the annuitized contributions.

In this case, the taxable gross is reduced by the 132.00 from the 591 annuity deduction record.

The system requires the following deduction records be set up for this type of annuitized retirement:

- STRS
- 450 (Employer Share 14%)
- 591 (Employee Share 12%)

This is the most common way of calculating retirement. Most all teachers are withheld using this method.

STRS:	
Employee Salary per payroll	\$1100.00
Employee Retirement amount 12% from 591	132.00
Remaining Net Pay	968.00
Employer Regular Retirement amount 14% from 450	154.00
Taxable Gross	\$ 968.00
Gross Amount for STRS Retirement Purposes	\$1100.00

Partial Regular and Partial Annuitized/Pick-up Retirement

This is an example where a portion of the employee's retirement contribution is regular retirement and the other portion is annuitized or pick-up. Two retirement records must be used to track the employee's portion of retirement. A 450 regular retirement record is used for the regular retirement portion while a 591 annuitized retirement record is used for the employee's annuitized portion of retirement. **The sum of percentages on both deduction records must equal 12.0%.**

In this case, the taxable gross is reduced by the 66.00 from the 591 deduction record.

The system requires the following deduction records be set up for splitting the retirement contributions between regular and annuitized retirement:

- STRS
- 450 (Employer Share 14%)
- 450 (Employee Share 6%)
- 591 (Employee Share 6%)

STRS:	
Employee Salary per payroll	\$1100.00
Employee Retirement amount 6% from 591	66.00

Remaining Net Pay	\$1034.00
Employee Regular Retirement amount 6% from 450	66.00
Employer Regular Retirement amount 14% from 450	154.00
Taxable Gross	\$1034.00
Gross Amount for STRS Retirement Purposes	\$1100.00

Full Pick-up on Pick-up Without Extra Compensation

This is an example where the employee's share of annuitized retirement is completely paid by the board and the board does not intend to include the pick-up amounts in the compensation for retirement purposes.

In this case, the employee does not receive a reduction in salary due to retirement withholdings since the board is paying the employee's retirement contribution as a benefit.

The system requires the following deduction records be set up for retirement that is considered full pick-up on pick-up without extra compensation:

- STRS
- 450 (Employer Share 14%)
- 691 (Employee Share 12% paid by board)

STRS:	
Employee Salary per payroll	\$1100.00
Remaining Net Pay	\$1100.00
Employer Regular Retirement amount 14% from 450	154.00
Employee Retirement amount 12% paid by the board from 691	132.00
Taxable Gross	\$1100.00
Gross Amount for STRS Retirement Purposes	\$1100.00

Partial Pick-up on Pick-up without Extra Compensation

This is an example where the employee's annuitized/pick-up retirement amount is partially paid by the board. The board does not intend to include the pick-up in the compensation for retirement purposes.

In this case, the salary is reduced only by 66.00 from the 591 deduction record.

The system requires the following deduction records be set up for retirement contributions that are split between annuitized and pick-up on pick-up retirement:

- STRS
- 450 (Employer Share 14%)
- 591 (Employee Share 6.0%)
- 691 (Employee Share 6.0% paid by board)

STRS:	
Employee Salary per payroll	\$1100.00
Employee Annuitized Retirement amount 6.0% from 591	66.00
Remaining Net Pay	\$1034.00
Employer Regular Retirement amount 14% from 450	154.00
Employee Retirement amount 6.0% paid by the board from 691	66.00
Taxable Gross	\$1034.00
Gross Amount for STRS Retirement Purposes	\$1100.00

Full Pick-up on pick-up With Extra Compensation Where Board Pays Additional Retirement

This is an example of full pick-up on pick-up. In this scenario, the board pays both the board and employee retirement amounts on the pick-up benefit.

The first step in this process, is to calculate the inflated percentages that are placed on the 450/691 retirement deduction record. The software does not inflate the retirement amounts on deduction record; therefore, it must be done manually.

The formulas below outline how to arrive at the inflated percentages.

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STRS:
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(1 + .12) x .14      = .1568 -----> 15.68% on 450
(1 + .12) x .12     = .1344 -----> 13.44% on 691
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The "1" is considered the regular salary and the "+.12" is the amount by which the salary is inflated due to receiving the full pick-up benefit. The employee takes home 12% more wages because of this benefit. The "x.14" is the board percentage of retirement that must be paid not only on the regular salary, but also on the pick-up benefit. The "x.12" is the employee percentage of retirement that the board pays not only on the employee's regular salary, but also on the pick-up benefit.

In this case, the employee salary is not reduced for taxing purposes since the board is paying the full employee retirement percentage plus both the board and employee pick-up on the increase in compensation.

The system requires the following deduction records to be set up for full pick-up on pick-up retirement where the board pays the retirement contributions (both employee and employer shares) on the pick-up benefit:

- STRS
- 450 (Employer Share 15.68%)
- 691 (Employee Share 13.44% paid by board)

This is most common for the highest administrators...typically superintendents and treasurers. May apply to other administrators.

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STRS:
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Employee Salary per payroll                $1100.00
      Remaining Net Pay                    $1100.00

Board Retirement amount 15.68% paid by the board
from 450                                  172.48

Employee Retirement amount 13.44% paid by the board
from 691                                  147.84

      Taxable Gross                        $1100.00

Gross Amount for STRS Retirement Purposes  $1232.00 **

**Inflated gross calculated as follows:

Gross 1100.00 x .12% (pickup percent)=132.00
Pickup on pickup 132.00 x .12= 15.84
Total of pickup percent and pickup on pickup amount 132.00+15.84=147.84
Inflated gross calculated 147.84/.12=1232.00
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Partial Pick-up on Pickup With Extra Compensation Where Board Pays Additional Retirement

This is an example of partial pick-up on pick-up. In this scenario, the board pays both the board and a portion of the employee retirement amounts on the pick-up benefit.

The first step in this process, is to calculate the inflated percentages that are placed on the 450/691 retirement deduction record. The software does not inflate the retirement amounts on deduction record; therefore, it must be done manually.

The formulas below outline how to arrive at the inflated percentages.

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STRS:
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(1 + .04) x .14      = .1456 -----> 14.56% on 450
(1 + .12) x .04      = .0448 -----> 4.48% on 691
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The "1" is considered the regular salary and the "+.04" is the amount by which the salary is inflated due to receiving the partial pick-up benefit. The employee takes home 4% more wages because of this benefit. The "x.14" is the board percentage of retirement that must be paid not only on the regular salary, but also on the pick-up benefit. The "x.12" is the employee percentage of retirement that the board pays not only on the employee's regular salary, but also on the pick-up benefit.

The system requires the following deduction records to be set up for partial pick-up on pick-up retirement where the board pays the retirement contributions (partial employee and employer shares) on the pick-up benefit:

- STRS
- 450 (Employer Share 14.56%)
- 591 (Employee Share 8%)
- 691 (Employee Share 4.48% paid by board)

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STRS:
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Employee Salary per payroll                $1100.00
Employee Annuitized Retirement amount
8.0% from 591                               88.00
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Remaining Net Pay                          $1012.00

Board Retirement amount 14.56% paid
by the board from 450                       160.16

Employee Retirement amount 4.48% paid by
the board from 691                           49.28

Taxable Gross                              $1012.00
(Gross minus 591 deduction amount)

Inflated Gross Amount for STRS Retirement Purposes  $1144.00 **

***Inflated gross calculated as follows:

Gross 1100.00 x 4.0%(pickup percent)=44.00
Pickup on pickup 44.00 x .12= 5.28
Total of pickup percent and pickup on pickup amount plus 591 amt. 44.00+ 5.28
+88.00(591)=137.28
Inflated gross calculated 137.28/.12=1144.00
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Full Pick-up on pick-up With Extra Compensation Where Employee Pays Additional Retirement

This is an example of full pick-up on pick-up. In this scenario, the employee pays only the employee retirement amounts on the pick-up benefit. The board still is responsible for submitting the employee share of retirement on the regular salary, the board share of retirement on the regular salary and the pick-up benefit.

The first step in this process, is to calculate the inflated percentages placed on the 591 retirement deduction record. The percentage on the 450 deduction record must be changed since the board still must pay the board retirement amounts on the pick-up benefit. The software does not inflate the retirement amounts on deduction records; therefore, it must be done manually.

The formulas below outline how to arrive at the inflated percentages.

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STRS:  
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  (1 + .12) x .14      = .1568 -----> 15.68%  on the 450 record  
  .12 x .12           = .0144 -----> 1.44%   on the 591 record  
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```

The "1" is considered the regular salary and the "+.12" is the amount by which the salary is inflated due to receiving the full pick-up benefit. The "x.14" is the board percentage of retirement the board must pay on the regular salary as well as on the pick-up benefit. The ".12" is the amount by which the employee's salary is inflated due to receiving the pick-up benefit. The "X.12" is the percentage the employee pays on only the pick-up benefit. The board pays the employee share of retirement on the employee's regular salary.

Any pick-up contributions paid by an employee must be tax-deferred. In this situation, the employee's salary is reduced by for taxing purposes. A 591 retirement deduction record is used to track the annuitized pick-up contribution paid by the employee.

The system requires the following deduction records to be set up for full pick-up retirement where the employee pays only the employee share of retirement contributions on the pick up benefit:

- STRS
- 450 (Employer Share 15.68%)
- 591 (Employee Share 1.44%)
- 691 (Employee Share 12% paid by board)

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STRS:  
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Employee Salary per payroll                $1100.00  
Employee Pick-up Retirement amount 1.44%  
paid by employee on 591                    15.84  
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Remaining Net Pay                          $1084.16  
  
Board Retirement amount 15.68% paid by the board  
from 450                                    172.48  
  
Employee Retirement amount 12% paid by the board  
from 691                                    132.00  
  
Taxable Gross                              $1084.16  
  
Gross Amount for STRS Retirement Purposes  $1232.00 **  
  
** Inflated gross calculated as follows:  
  
Gross 1100.00 x 12.0%(pickup percent)=132.00  
Pickup on pickup 132.00x.12=15.84  
Total of pickup percent and pickup on pickup amount 132.00+ 15.84= 147.84  
Inflated gross calculated 147.84/.12=1232.00  
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STRS calculates the gross pay for an employee by dividing the contributions submitted for the employee by the current retirement rate (12.0%).