

# The FICA Alternative Retirement Plan



# *Overview*

## **What is a FICA Alternative Plan?**

It is a Plan that allows certain Governmental Employers to forgo making the matching 6.2% FICA Taxes on the wages paid to Part-Time, Seasonal & Temporary (PST) employees

# *Recent Wisconsin Plan History*

- WASBO, WPRA and PRG collaboration
- Act 10
- Changes to WRS Eligibility

## *How it works*

Instead of paying the PST Employee's 6.2% FICA tax to the Federal Government the Employer establishes an account which the Employee contributes on a mandatory basis 7.5% of his/her gross wage on a pre-tax basis.

# Example

*How 6.2% equals 7.5%*

Description	Without FICA Alternative Plan	With FICA Alternative Plan
Earnings	\$1,000.00	\$1,000.00
Less 7.5% Plan	0.00	75.00
Taxable Income	\$1,000.00	\$925.00
Less 15% Income Tax	-150.00	-138.75
Less 5% State Income Tax	-50.00	-46.25
Less 6.2% Social Security*	-62.00	-0.00
Less 1.45% Medicare	-14.50	-14.50
<b>Net Take-Home Pay</b>	<b>\$723.50</b>	<b>\$725.50</b>
Accumulated Savings	0.00	75.00
<b>Net-Take-Home Pay + Savings</b>	<b>\$723.50</b>	<b>\$800.50</b>

# *Net Effect*

Employer Benefits by:

- ✓ Immediate and ongoing tax savings

Employee Benefits by:

- ✓ Receives a 100% vested retirement account
- ✓ Accounts earns a current market rate of interest
- ✓ Account is available upon:
  - a) termination of employment
  - b) death / disability
  - c) normal retirement age

# *How do you qualify ?*

*There are two ways you can qualify*

1. Many governmental entities such as school systems, cities and counties did not withhold FICA taxes prior to 1990 for part-time, seasonal and temporary employees (PSTs).

Under the Omnibus Budget Reconciliation Act of 1990 (OBRA) FICA was made mandatory for all employees. The governmental entities who were not withholding FICA for PSTs now had two options.

# *Employer Options*

A. Offer FICA (social security) to all PST Employees

*or*

B. Offer an alternative plan specified under IRC 3121



# *How do you qualify ?*

2. The second way you can qualify is if your governmental entity or the State you reside has made an election to exclude PST employees from FICA coverage in their 218 agreement with the Federal Government.

# *Cost Analysis*

- 🔑 Minimal cost to employer
- 🔑 Little administration to employer
- 🔑 No cost to the employee
- 🔑 No sales charge or withdrawal charge to the participant

# *Monitoring*

- Accessibility through centralized 800 listing
- Employee brochure and annual statement
- Group meeting with employees, at employer discretion

# *Implementation*

- Submit for authorization to ETF
- Execute Plan Documents
- Eliminate 6.2% matching contribution to Social Security
- Send Employee contributions to insurance company
- Inform Employees of Change

# *Implementation (cont.)*

- How to setup the plan?
  - Add new deduction code in payroll
  
- Who is included in the plan?
  - Substitutes (not in WRS)
  - Coaches (not regular employees)
  - Co-curricular workers
  - School aides/paraprofessionals (non-WRS)
  - Any PTS employee not in WRS

# *Fund Distributions*

When can I withdraw funds from my account?

- Separation or termination of employment
- Retirement
- Age 59 ½
- Participant's total disability
- Participant's death

## *Fund Distributions (cont.)*

- Separation or termination of employment
  - Take cash distribution and pay ordinary income taxes
  - Rollover their account balances to IRA or eligible plan
  - Leave their account balance in place and continue earning interest
  - Purchase additional years of service with WRS

# *Frequently Asked Questions*

- ? **How will I be enrolled?**  
Qualified employees will be enrolled automatically. You must complete the “Statement Concerning Your Employment in a Job Not Covered by Social Security” and the “3121 FICA Alternative Plan Form.”
- ? **What happens if my salary status changes and I am no longer eligible? Will I need to take an action?**  
No. Employees will be enrolled or un-enrolled automatically based on their current employment status.



## *Frequently Asked Questions (cont.)*

- ? **May I decide not to participate in the 3121 FICA Alternative Plan?**

No. The IRS regulations for the 457 plan require that all eligible and qualified Public School District employees participate in the 3121 FICA Alternative Plan.

- ? **What if I do not complete the enrollment form?**

The enrollment form is used for documenting basic demographic information necessary for enrollment and designates your beneficiary.

## *Frequently Asked Questions (cont.)*

? Can I continue to contribute to the plan after I leave?

No. The plan requires contributions through the Public School District.

? Will participation in the plan effect my past contributions to social security?

No. Those contributions will remain in your name with social security.

? How often will contributions be taken and how much are the contributions to the plan?

Contributions are made each pay period at 7.5% of pre-tax wages.

# *Cost Savings*

## **Potential Employer Savings**

<b>Annual PST Payroll</b>	<b>Employer Savings</b>
<b>\$ 50,000</b>	<b>\$3,100</b>
<b>\$100,000</b>	<b>\$6,200</b>
<b>\$250,000</b>	<b>\$15,500</b>
<b>\$750,000</b>	<b>\$46,500</b>
<b>\$1,000,000</b>	<b>\$62,000</b>
<b>\$1,500,000</b>	<b>\$93,000</b>
<b>\$5,000,000</b>	<b>\$310,000</b>

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## *Questions*

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