


Payroll and Related Personnel Issues



Presented for MIEM by


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Overview of Elluminate

The screenshot shows the Elluminate interface with the following components labeled:

- Top Toolbar**: Located at the top of the window.
- Whiteboard Screens**: A central area for displaying content.
- Whiteboard Tools**: A vertical toolbar on the left side of the whiteboard area.
- Whiteboard**: The main central workspace.
- Participant Window**: A window on the left showing participant information.
- Chat Room**: A window on the left for text-based communication.
- Audio Controls (mic/speaker level)**: Located at the bottom of the interface.

Today's Overview



- ✓ Employee or Independent Contractor?
- ✓ Wage and Hour Laws
- ✓ Collective Bargaining Agreement Administration
- ✓ Teacher Pay Options
- ✓ Employee Benefit Plans
- ✓ Administering 403(b) & 457 Plans
- ✓ Processing New Employees
- ✓ Pay for Employee Leaves



Today's Overview



- ✓ Communicating with Employees
- ✓ Working with the Personnel Office
- ✓ Staffing the Payroll Office
- ✓ Scheduling Issues
- ✓ Payroll Oversight Responsibilities
- ✓ Internal Controls Over Payroll
- ✓ REP and FID Reporting
- ✓ Payroll Processing Trends
- ✓ Wages, Taxes, and Withholding



Today's Overview



- ✓ Payments and Reporting
- ✓ MPSERS Issues
- ✓ Year End Reporting
- ✓ Payroll Records Retention
- ✓ Additional Resources
- ✓ Parting Thoughts



Employee or Independent Contractor?



✓ **In determining whether the person providing service is an employee or an independent contractor, all information that provides evidence of the degree of control and independence must be considered.**

✓ **Behavioral Control**

- Does the district have a right to direct or control how the work is done through instructions?
- When, where, and how work is done?
- Does the district provide training?



Employee or Independent Contractor?



✓ **Financial Control**

- Does the district have a right to direct or control the financial and business aspects of the worker's job?
- The extent of whether the worker has unreimbursed business expenses
- The extent of the worker's investment in facilities/equipment used in performing services
- The extent of which the worker makes his/her services available in the marketplace
- How the worker is paid
- The extent to which the worker can realize a profit or loss



Employee or Independent Contractor?



✓ **Type of Relationship**

- How do the parties perceive their relationship?
- Written contract describing the parties' relationship?
- Fringe benefits provided?
- The extent to which the worker is available to perform services for other districts?
- The permanency of the relationship
- Are the worker's services a key aspect of regular business of the district?



Employee or Independent Contractor?



- ✓ **Employee wages reported on W-2**
- ✓ **Independent contractors**
 - W-9 Request for Taxpayer Identification Number should be kept on file
 - Report to IRS on 1099-MISC and 1096 if payments during calendar year are greater than or equal to \$600
- ✓ **Watch for employees doing separate independent contractor work**



Employee or Independent Contractor?



- ✓ **There is not always an easy answer.**
- ✓ **What can you do?**
 - Can file Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding
 - Refer to IRS Publication 1779, Independent Contractor or Employer?
 - <http://www.irs.gov/businesses/small/article/0,,id=99921,00.html>



Wage and Hour Laws



- ✓ **Fair Labor Standards Act - federal wage and hour law**
- ✓ **Michigan wage and hour law**
- ✓ **Current Michigan minimum wage \$7.40/hour**
- ✓ **Employees exempt from wage and hour laws:**
 - Executive
 - Administrative
 - Professional
 - Outside Sales
 - Computer Employees (Technical)



Wage and Hour Laws



Exempt employees:

✓ Executive duties

- Primary duty is management of a department or subdivision and directs the work of two or more employees

✓ Administrative duties

- Primary duty is management or general business operations and uses discretion and independent judgment



Wage and Hour Laws



Exempt employees:

✓ Learned professional duties

- Primary duty requires advanced knowledge in a field of science or learning

✓ Creative professional duties

- Primary duty involving invention, imagination, originality or talent in a recognized field of artistic or creative endeavor



Wage and Hour Laws



✓ Automatically exempt employees:

- Teachers
- Outside sales employees
- Doctors
- Lawyers
- Certain computer-related occupations paid at least \$27.63 per hour



Wage and Hour Laws



- ✓ **Employers must pay overtime compensation at a rate of time-and-one-half for hours worked over 40 per week by non-exempt (hourly) employees**
- ✓ **Wage and hour laws do not mandate:**
 - Overtime pay for hours worked > 8 per day
 - Frequency or duration of breaks or lunch periods
 - Vacation, holiday, sick day, personal day, longevity, or severance pay
 - Pay raises and fringe benefits
 - These items are contractual or local district decisions
- ✓ **Pay overtime at blended rate for employees working at multiple pay rates**



Wage and Hour Laws



Blended Overtime Example:

Joe the bus driver drove his regular bus runs for 35 hours one week at his regular driving rate of \$15.00 per hour. He also drove field trips totaling 10 hours at the \$10.50 per hour trip rate in the same week. Compute Joe's regular pay and overtime pay for the week.

Driver Pay	35 hours @ \$15.00/hour	\$525.00
Trip Pay	10 hours @ \$10.50/hour	\$105.00
	45 hours	\$630.00
Overtime	5 hours @ \$7.00/hour (*)	\$ 35.00
TOTAL GROSS PAY		\$665.00

(*) Blended O/T Rate = \$630.00/45 hours = \$14.00 x 0.50 = \$7.00



Wage and Hour Laws



- ✓ **Hours worked by non-exempt employees over 40 in a week that are occasional or sporadic may be exempt from overtime, if:**
 - The extra work falls in a different occupational category from the employee's regular work
 - The employee's decision to work in a different capacity is made freely without coercion and without retribution by employer
 - *Occasional or sporadic* means infrequent, irregular, or occurring in scattered instances



Wage and Hour Laws



- ✓ **Employers must maintain records of actual hours worked for all non-exempt (hourly) employees.**
 - All hours worked must be complete and accurate, including overtime hours
 - Time records should be signed by employees.
 - Employees cannot "donate" time or volunteer to work additional hours
 - This extra time worked must be recorded on time records
 - Time clock systems automated with HR software



Wage and Hour Laws



- ✓ **Non-exempt (hourly) employees must work only their scheduled working hours. Watch for:**
 - Working through lunch hours
 - Working before or after scheduled work hours without prior approval
 - Employees taking work home without prior approval
 - There are times when an employee may be required to come in early or stay late, depending on unforeseen circumstances. This should be worked out with supervisors in advance.
- ✓ **Overtime hours should be approved by employee's supervisor in advance.**



Wage and Hour Laws



- ✓ **Other Issues**
 - Compensatory time programs must be written documents according to wage and hour laws.
 - Flex time programs may prove useful.
 - Overtime hierarchy provisions in union contracts cannot "trump" wage and hour laws.
- ✓ **Are you monitoring compliance?**
- ✓ **Are you paying blended overtime rates?**
- ✓ **Are you running game help work performed by employees through payroll?**



Wage and Hour Laws



✓ Enforcement

- Wage and Hour Division of the State of Michigan's Department of Labor & Economic Growth Oversees Michigan Wage and Hour Laws
- Random audits are done by State wage and hour staff.
- Employee complaints ARE investigated by the State.
- These complaints can be very time consuming.
- Class action complaints have been filed by employee groups.
- If complainants prevail, back pay can be required of employers for current year plus two prior years.



Collective Bargaining Agreement Administration



✓ Teachers, Administrators, and other Salaried Employees

- Teacher Schedule A salary – how many days work does this represent? Break down into daily and hourly pay rates.
- Teacher Schedule B extra duty pay.
- 21 or 26 pay options – do you have teacher preferences in writing?
- Severance pay issues – maximum payout amounts, minimum years of service for eligibility
- Early retirement incentive payments
- Watch for special pay arrangements in Superintendent's contract



Collective Bargaining Agreement Administration



- ✓ Other contractual pay rates for teachers – PD, driver education, summer curriculum pay, pay for working during planning periods, etc.
- ✓ Hourly employee contracts usually have unique language with payroll implications.
 - Secretaries, Custodians, Paraprofessionals/Aides, Bus Drivers, Cooks, Playground Supervisors/Monitors
- ✓ How is longevity pay handled?
- ✓ Overtime for work more than 8 hours/day or 40 hours/week?
- ✓ Are bus drivers paid by the run or by the hour?



Collective Bargaining Agreement Administration



- ✓ **Contract settlement timelines – Give your payroll person time to do adjustments and/or retro pays.**
- ✓ **At the table, identify and communicate issues that create practical problems for payroll person.**
 - Know your payroll person's concerns before bargaining!
 - The contract implementation materially affects the payroll person's job most of the time!
- ✓ **Bargain with processing issues in mind.**
- ✓ **Know the contract.**
- ✓ **Follow the contract.**
- ✓ **Be consistent.**



Teacher Pay Options



- ✓ **Teacher contracts commonly allow teachers to spread their salary earned during the school year over the whole year, which allows teachers to receive a paycheck in the summer months when they are not working.**
- ✓ **If a teacher elects to be paid over 12 months (26 pays) instead of over the school year (21 pays), it is a good practice to have that election in writing.**
- ✓ **IRS Section 409A rules enacted in 2007 created much confusion on this issue.**
 - These rules define deferred compensation situations
 - 409A rules do not apply to teachers per IRS Notice 2008-62



Teacher Pay Options



- ✓ **Components of a good election form for spreading teacher pay:**
 - The election should be in writing.
 - The election should be made before the beginning of the work period (i.e. before the first day of the school year for which the teacher is paid).
 - Make the election irrevocable – it cannot be changed after the work period begins.
 - The election must state how the compensation is going to be paid (i.e. 21 or 26 pays).
 - Provide language that allows the election to continue into future years until a new election form is completed.



Employee Benefit Plans



- ✓ **HIPAA compliance – annual notification to employees during open enrollment**
- ✓ **Medicare Part D compliance – annual notifications by November 15 of each year**
- ✓ **Flexible Spending Accounts in Section 125 Plans**
 - Dependent Care Expenses
 - Medical Reimbursement Accounts
- ✓ **403(b) and 457 Plans**
- ✓ **Make sure your payroll person knows how these issues affect payroll**



Administering 403(b) & 457 Plans



- ✓ **New IRS regulations for 403(b) plans went into effect January 1, 2009.**
- ✓ **403(b) rules require a written plan document**
 - Plan document must contain all terms and conditions for eligibility, limitations, and benefits.
 - Vendor agreements need to be in place.
 - One plan document must govern all vendors offering funds under the plan – new rules do not allow for separate plans for each vendor.
 - Sample plan documents are available from IRS.



Administering 403(b) & 457 Plans



- ✓ **All eligible employees must be allowed to participate in district 403(b) program**
 - Part-time employees working 20 hours or more per week generally.
 - Meaningful notification to eligible employees must be provided to demonstrate universal availability of plan participation.
- ✓ **403(b) plan administration is required to be monitored by employer or designated party.**
 - Contributions
 - Plan Loans
 - Withdrawals
 - Hardship Distributions
 - Transfers



Administering 403(b) & 457 Plans



- ✓ **Tax-free contract exchanges (transfer) of 403(b) assets only allowed if plan document allows**
 - Inside vendor pool
 - Outside the vendor pool you must have an information sharing agreement in place
- ✓ **Consider utilizing a third party administrator to handle plan administration functions.**



Administering 403(b) & 457 Plans



- ✓ **Agreements with vendors spell out which party will perform each function of plan administration.**
- ✓ **457 Deferred Compensation Plans**
 - Plans can be discriminatory for certain employee groups
 - Plan assets held in trusts - Annuity and custodial accounts can meet the trust requirement
 - Distributions from plan can be done earlier than 59^{1/2}, unlike 403(b), based on qualifying event
 - Popularity has increased since contributions to a 457 plan and a 403(b) plan no longer must be combined
 - Eligible 457 plan salary reduction limits are on the same schedule as 403(b) plan



Administering 403(b) & 457 Plans



- ✓ **Limits on employee elective deferrals**
 - 2011 - \$16,500 plus applicable catch-up amounts
 - 2012 - \$17,000 plus applicable catch-up amounts
- ✓ **Catch-up contribution limitations**
 - 2011 - \$5,500
 - 2012 - \$5,500
- ✓ **Limitation on total contributions (employee and employer)**
 - 2011 - \$49,000
 - 2012 - \$50,000
- ✓ **These are calendar year limits**



Administering 403(b) & 457 Plans



✓ Common problems:

- Incorrect deferral computations provided by annuity providers
- Failure to identify and report defaulted loans
- Failure to satisfy the requirements for hardship distributions
- Loans across multiple annuity programs that exceed federal loan limits
- High turnover of annuity provider representatives



Processing New Employees



✓ INS I-9 Employment Eligibility Verification Form

- Must retain for a minimum of 3 years after date of hire or one year after termination of employment, whichever is later

✓ State of Michigan New Hire Online Reporting (<http://mi-newhire.com/MI-Newhire/default.aspx>)

✓ Federal Form W-4 Employee's Withholding Allowance Certificate (www.irs.gov)

✓ Michigan Form W-4 Employee's Withholding Allowance Certificate (http://www.michigan.gov/documents/taxes/MI-W4_2010_336593_7.pdf)

✓ Local Withholding Allowance Certificate (if applicable)



Processing New Employees



✓ MPSERS Beneficiary Nomination Form R315C (http://www.michigan.gov/documents/r315c_15885_7.pdf)

- Can elect online through "My Account"

✓ MPSERS Tax Deferred Payment Forms (if applicable)

✓ Criminal Background Checks

- Fingerprinting for all new employees on Michigan State Police & FBI databases
- Prohibits persons convicted of certain listed offenses from working in the school district.
- Employees should NOT be on the job or be paid until fingerprinting has been completed.



Processing New Employees



✓ Personnel Transaction Form:

- Documents all pertinent information for employee
- Pay rate
- Work hours
- Start/end dates
- Leave accrual computations
- General ledger account numbers
- Documents fingerprinting date
- REP Assignment codes



Processing New Employees



✓ Personnel Transaction Form:

- Documents supervisor and personnel office approval
- Use for all employees
 - Regular positions, seasonal help, coaches, substitutes, etc.
- Use for any employee changes
 - Position changes, work hours, new hires, terminations, long-term suspensions, long-term leaves, etc.
- Copies for personnel file, payroll file, employee, supervisor



Processing New Employees



PERSONNEL TRANSACTION FORM

INSTRUCTIONS: SUPERVISOR, COMPLETE TOP HALF OF FORM AND FAX TO ADMINISTRATION OFFICE IMMEDIATELY.

Employee ID # _____

EMPLOYEE NAME: _____ JOB TITLE: _____

BUILDING ASSIGNMENT: _____ GRADE: _____

SCHEDULED START DATE: _____ SCHEDULED END DATE (This school year.): _____

HRS PER DAY: _____ HOURLY RATE: _____

THIS EMPLOYEE WILL BE SCHEDULED TO WORK. (CHECK ALL THAT APPLY.)

- All Student Days
- All Teacher Days
- Other (Please specify): _____

EDUCATIONAL SETTING (If appropriate)

- Alternative Education (AIEd)
- Special Education (SpEd)
- Early Childhood and Parenting Programs (ECPP)
- Career/Tech Education (CT)
- Administrative or Support Staff (All levels) (Admin)

- New Employee
- New Employee (Substitute)
- Current Employee (taking a different position)
- Current Employee (taking an additional position)
- Pay Rate Change
- Temporary Employee
- Termination
- Specify Reason for Termination/Give Date



Communicating with Employees



✓ What to do?

- Ensure that all new employees understand deductions, pay cycles, timing, etc.
- Publish your payroll dates for the year and the periods they cover.
- Periodic reminders to staff regarding payroll issues.
- Consider having a staff technology page developed on the district website.
- Communicate!



Communicating with Employees



✓ What can be done to help employees understand the “hidden” costs they don’t see in their paycheck?

- Do you provide annual total compensation statements to employees?
- Check your master agreements for contractual requirements.
- Do unions publish dues schedules for their members?
- Provide employer contributions on pay stubs.
 - Health/Life/LTD insurance premiums
 - Dental/vision insurance premiums
 - Employer FICA Contribution
 - Employer MPERS Contribution



Communicating with Employees



✓ New hires



- All required withholdings
- All optional withholdings
- Eligibility dates (including open enrollment) for all benefits

✓ Annual updates

- Timing of changes to optional withholdings
- Changes to withholding amounts for all withholdings




Break

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Working with the Personnel Office




✓ **Personnel office should handle:**

- Tracking FMLA leaves
- Sick leaves and sick bank administration
- Worker compensation
- Other employee leaves
- Employee benefits administration
- Fingerprinting
- New hire paperwork
- Termination
- Employee discipline
- Unemployment
- All these areas affect payroll!

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Working with the Personnel Office



✓ **There are lots and lots of overlapping issues between personnel and payroll**

- Must have a clearly defined job responsibilities for all
- Know who does what and when
- Must have effective processes in place for smooth exchange of information
- Pay attention to the interaction between the key players – they have to work together!

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Working with the Personnel Office



✓ REP Reporting

- Know who updates what in HR software for good REP data
- Basic employee data
- Credentials
- Building codes
- Assignment codes
- Grade codes
- Pay rates
- Function codes
- FTE's
- Garbage in = Garbage out



Staffing the Payroll Office



✓ What can be done to make sure you have the right person in the job?

- Have candidates share specific past work experience
- Test their skills
- Do thorough background checks, including previous employers
- Try to talk with references not listed
- Credit checks



Staffing the Payroll Office



✓ Testing candidates

- Various package software applications that can be purchased to test employees
- These can test for analytical and technical skills
- Test basic computer skills – spreadsheets, databases, word documents
- Test basic typing skills
- Be sure you know skill levels *before* you hire!



Staffing the Payroll Office



✓ Outsourcing Payroll

- Many ISD's or districts provide services through shared service agreements with other districts
- Related issues:
 - Logistics issues
 - Coordination of submitting payroll information (timesheets, pay rate changes, etc.)
 - Timing of the process and data processing
 - Access to employee personal data (SS# privacy, etc.)
 - Each district's situation is different
 - District size is a key factor



Staffing the Payroll Office



✓ Accuracy is critical

- Is 99.9% good enough?
- How do you correct that error?
- Payroll, FICA, and Retirement costs account for 70-80% of the school district's annual operating budget

✓ Don't underestimate – they know stuff

✓ Hands on knowledge of software capabilities

✓ Most likely to remember who/when

✓ Accurate and timely filing is essential for quick retrieval of information



Staffing the Payroll Office



✓ What can be done to help the payroll person?

- Listen to their ideas and suggestions
- Payroll procedure manual
 - Documents payroll processing procedures
 - Must be kept current
 - Specifies what to do each payroll period, monthly, quarterly, and at year-end
- Cross training of staff is important for back-up
- Allow them professional development opportunities
- Encourage attendance at payroll or software users group meetings
- Acknowledge their contribution to your district.
- Payroll staff usually only hear about problems.



Staffing the Payroll Office



- ✓ **What is your back up plan?**
 - Do you have appropriate cross training within the business office?
 - How do you handle vacations?
 - What happens if the payroll person goes on sick leave?
 - Are payroll processing procedures documented?
 - Someone else needs to know how to process payroll for your district
 - You may be the back up plan!



Scheduling Issues



- ✓ **Set firm cutoff timelines for submission of timesheets or payroll changes**
 - Work with personnel office on reasonable cutoff timelines
 - Stick to the deadlines!
- ✓ **Provide sufficient processing time between time sheet due dates and pay date**
- ✓ **Timesheets should be provided to payroll office after the pay period ends**



Scheduling Issues



- ✓ **Consider a two-week turnaround between payroll end date and pay date**
 - Takes pressure off quick payroll turnaround of a one-week schedule
 - Conversion can be tricky
- ✓ **Consider publishing and distributing a schedule of payroll information for the year. Include:**
 - Payroll period dates
 - Pay dates
 - Timesheet due dates
 - Factor in early pay dates due to holidays
 - Plan ahead for shortened processing periods



Scheduling Issues



- ✓ **When do you pay teachers their first check each year?**
 - May need to shift pay date due to change in first day of school
- ✓ **Watch for 27 pays in a year for salaried employees spread over the year**
- ✓ **How will you distribute paychecks during non-school periods, such as summer and breaks?**
- ✓ **Mail those checks!**
- ✓ **Go paperless!**



Payroll Oversight Responsibilities



- ✓ **If you can, review timesheets and payroll reports every pay period.**
 - Cross check labor distribution reports to general ledger posting
 - Review timesheets and special pay requests for supervisor approval
 - Scan payroll registers for appropriateness
 - Spot check information in payroll software
 - Cross check ACH reports to bank account debit
 - This protects both you and the payroll person



Payroll Oversight Responsibilities



- ✓ **Periodically review FICA/MC and MPERS accounts tied to salary accounts in HR software**
- ✓ **Review bank reconciliations**
- ✓ **Are tax withholding tables updated before first payroll of calendar year?**
- ✓ **Crosscheck employee salary amounts and pay rates with master agreements and board approved amounts**
- ✓ **Are labor distribution accounts appropriate?**
- ✓ **Is anyone reconciling attendance leave requests to timesheets?**
- ✓ **Take an active role in the oversight!**



Internal Controls over Payroll



- ✓ **Who has access to HR system and what are their permissions?**
 - Are their permissions in system appropriate for their position?
 - Customize permissions
- ✓ **Segregation of duties**
 - Who sets up new employees in system? personnel office or payroll person?
 - Who can make an employee active or inactive in the system?
 - Are employee changes made in the system timely?
 - REP implications



Internal Controls over Payroll



- ✓ **Who has access to payroll and personnel files?**
 - Are employee files kept in a secure location?
 - Social Security number confidentiality issues
 - Other confidential employee documents (garnishments, employment verifications for loans, child support, annuity information, etc.)
 - This information must be safeguarded



REP and FID Reporting



- ✓ **Understand the relationship between data reported on FID and data reported on REP**
 - Function codes
 - Staff FTE's
 - Building codes
 - Average teacher salaries
 - Terminated employees
- ✓ **Review REP data before each submission!**
- ✓ **Decisions are being made at the state level based on your data. Make sure it's right!**
- ✓ **Garbage in = garbage out!**



Payroll Processing Trends



✓ Direct Deposit of Funds

- Automated Clearing House (ACH) Direct Deposit through Federal System
- Allows for transfer of funds to any participating financial institution



Payroll Processing Trends



✓ Benefits of Direct Deposit:

- Employees receive wages quicker and are happier
- Reduced bank fees for employees
- More secure
- Payroll tax payments and some vendor payments (TSA and Benefits) can be included
- No more lost checks
- No more outstanding checks
- Simplifies payroll bank account reconciliation
- Helps prevent fraudulent employees as a bank account must be associated with each employee



Payroll Processing Trends



✓ Direct Deposit

- Set limit on number of institutions or accounts per employee
- Use a standard enrollment form
- Plan for time to pre-note your first run!
- As of December 21, 2010 Michigan employers can require employees to either use direct deposit or receive pay on a payroll debit card.
- Set up all new employees for direct deposit when they fill out new employee paperwork



Payroll Processing Trends



✓ Employee Web Access to Payroll Information

- Web based application providing employee information that pulls data from HR software
- Allows employees with an Internet connection to access from anywhere using secure login ID and password
- Eliminates paper pay stubs for direct deposit
- Employees can print stub information if they want
- Employees can also view other information online – attendance accruals and usage, district paid benefits, emergency contact, etc.
- There may be software limitations – check with your IT staff and software vendor



Payroll Processing Trends



Employee Web Example:

Payroll Period	Net Pay	Direct Deposit	Check
08/28/2011 - 09/04/2011	1,234.56	1,234.56	
09/05/2011 - 09/11/2011	1,234.56	1,234.56	
09/12/2011 - 09/18/2011	1,234.56	1,234.56	
09/19/2011 - 09/25/2011	1,234.56	1,234.56	
09/26/2011 - 10/02/2011	1,234.56	1,234.56	



Payroll Processing Trends



✓ Paperless Payroll

- Require all new employees to sign up for direct deposit or payroll debit cards.
- Use web-based application for employees to look up their payroll information
- Reduces check stock or paper usage for printing pay stubs.
- Reduces check and direct deposit stub printing, sorting, and distribution time.
- Growing trend in the business world.



Payroll Processing Trends



✓ 24 Pays Per Year

- Consistency in payment of payroll each month (example: pay on the 10th and 25th of each month)
- Set pay period dates every month (example: pay period runs 11th through 25th is paid on the 10th of the following month)
- Allows district to set longer processing time between period end date and payroll date
- Easier to manage district cash flows due to consistency
- Reduced time processing payroll each year (2 fewer payrolls per year to process), which frees up time for other responsibilities



Payroll Processing Trends



✓ 24 Pays Per Year

- No more 3 pay months
- Watch for overtime issues with hourly employees, as pay period end dates fall during the week (on a date not a day of the week)
- No more 27 pay issues that creep up every few years
- Some districts have moved all teachers to 26 pay arrangements for cash flow purposes
- Employees would need to modify their personal budgeting (automatic loan payments, etc.)
- Individual paychecks would be larger than traditional 26 pay arrangements



Wages, Taxes, and Withholdings



✓ Gross Wages

- Wages
- Overtime
- Salaries
- Sick pay
- Schedule B extra duty pay
- Longevity pay
- Severance pay
- Fringe Benefits
- Expense stipends



Wages, Taxes, and Withholdings



- ✓ **Business expense reimbursements are not included in gross pay if under an accountable plan**
 - Incurred deductible expenses while performing services as your employee
 - Adequately account for these expenses within a reasonable period of time (60 days)
 - Return any amounts in excess of expenses within a reasonable period of time (120 days)



Wages, Taxes, and Withholdings



- ✓ **Social Security**
 - 2011 base is \$106,800
 - 2012 base is \$110,100
 - Social Security (FICA, OASDI) withholding 4.2% of amounts up to the base in a calendar year with an employer match of 6.2% in 2011. in 2012, they are both 6.2%
- ✓ **Medicare tax is 1.45% withheld on all compensation with an employer match**
- ✓ **Federal withholding tax is required based on information provided by employee on W-4**



Wages, Taxes, and Withholdings



- ✓ **Michigan withholding tax is required based on information provided by employee on MI W-4**
- ✓ **Local withholding tax is required for some cities, depending on location of workplace or employee residence in applicable city.**
- ✓ **Other withholdings must be made according to legal documents:**
 - Garnishments and wage liens
 - Child support payments
 - Other deductions
- ✓ **All deductions must have written order for withholdings**



Payments and Reporting



✓ Retirement Reporting

- Each district has a web administrator who grants access to ORS system for district staff
- Retirement wages and hours are submitted electronically over the Internet each payroll period
- Worker compensation benefits paid by carrier need to be reported to ORS, along with hours employee would have worked during the pay period
- Records are error checked in ORS system for compliance and corrections are often required



Payments and Reporting



✓ Federal tax payments are done through electronic deposits in EFTPS

- More than \$200,000 tax liability, required to use EFTPS
- Required if required in the prior year: If required in 2011, then you have to use it in 2012
- Required if total deposits of all federal taxes were more than \$200,000 two calendar years back (i.e., in 2009 for 2011 deposits)

✓ Retirement payments are made each payroll

- Currently 24.46% of reportable wages for those who first worked before 7/1/10 and 23.23% for those first working after 7/1/10
- Payments are now due 7 business days after every payroll (through March, 2012)
- Don't forget to pay retirement on worker comp benefits made by carrier (State used to bill the employee directly)



Payments and Reporting



✓ EFTPS

- 10% penalty if you do not use as required
- Initiate transaction one day before it's due
- Use www.eftps.com (retains tax deposit history)
- For information on EFTPS call (800) 555-4477 or visit www.eftps.gov

✓ Don't forget to pay employer share of taxes on 3rd Party Sick Pay

✓ Estimate additional deposit amount if additional information unavailable.



Payments and Reporting



✓ Federal Tax Due Dates:

- Look back period July 1 through June 30 (for 2011 taxes, July 1, 2009 through June 30, 2010)
- Semiweekly depositor if \$50,000 or more of employment taxes in the look back period, otherwise monthly depositor
- Over \$100,000 of employment taxes on any day, must deposit the next banking day
- If you are a monthly depositor and accumulate \$100,000 of employment taxes, then you automatically become a semiweekly schedule depositor for the rest of that year.



Payments and Reporting



✓ Federal Tax Due Dates:

- Semiweekly Depositor
 - Taxes from Wednesday through Friday are due the following Wednesday
 - Taxes from Saturday through Tuesday are due the following Friday
- Monthly Depositor
 - Taxes due by the 15th of the following month



Payments and Reporting



✓ Penalties for Late Payments:

- 2% to 15% of tax depending on how late payment is
- 2% to 10% if 941 liability schedule not properly filed
- 10% if paid in the wrong manner (i.e. did not use EFTPS when required, paid with tax return when not allowed)
- Tax payments generally applied to most RECENT liability and not on a FIFO basis
- IRS can recover taxes from “responsible persons” if not paid and/or withheld



Payments and Reporting



✓ State Withholding Taxes

- Required to withhold based on MI W-4 form
- Due the 20th of the next month
- Annual reconciliation due February 28th with copies of Form W-2



Payments and Reporting



✓ State Unemployment Tax (SUTA):

- Quarterly reporting of all employee wages on form UIA 1017
- Reimbursing Employers
 - Pay unemployment costs on a reimbursement basis to the state based on actual claims made during the year
 - No contributions made during the year
 - Most schools are reimbursing employers



Payments and Reporting



✓ State Unemployment Tax (SUTA):

- Contributing Employers
 - File quarterly returns UIA 1020 by the 25th of the month following the end of each calendar quarter
 - Pay tax on the first \$9,000 paid to each employee each year
 - State determines employer's contribution rate based on employer's claims history



MPSERS Issues



✓ October 1, 2007 MPSERS Changes

- Re-establishing membership after a period of deferment:
 - An employee must earn at least 0.10 year of service for each of the 5 years immediately preceding retirement effective date *OR*
 - Must earn 0.50 year of service in the 2 years immediately preceding retirement
- New active MPSERS members after July 1, 2008 must earn at least 25 years of service to qualify for full insurance premium subsidy. If less than 25 years, a graded premium subsidy applies.



MPSERS Issues



✓ October 1, 2007 MPSERS Changes

- New active MPSERS after July 1, 2008 contribute 6.4 percent of their wages that exceed \$15,000 for MIP contributions.
- ✓ **Access most recent versions of ORS forms and publications on ORS website at**
www.michigan.gov/orsschools
- ✓ **Access MPSERS Reporting Instruction Manual at**
<http://www.state.mi.us/dmb/ORS/EMP/psru/RIM.asp>



MPSERS Issues



✓ MPSERS Service Credit Purchase

- Discontinued for employees hired after July 1, 2010.
- Employees hired prior to 7/1/10 can purchase up to 5 years of service credit, which can increase pension benefits during retirement years.
- The earlier in the career service credit is purchased, the less costly it is.
- In determining the year with highest earnings, ORS may annualize up part-time wages from a prior year
- Tax Deferred Payment (TDP) agreements started after 1/1/04 are charged 8% interest annually



MPSERS Issues



✓ MPSERS Service Credit Purchase

- Agreements started after 7/1/11 must be paid off within 15 years. Minimum monthly payment is computed so that purchase is paid off in 15 years
 - \$50 minimum payment still applies.
 - Employee can choose larger payment to pay off sooner. This election can be made after payments have started, as well, but it is irrevocable.
- ORS recently sent out notices to employees who have current agreements where the interest being charged exceeds their payments or their current payment plan will not be done in 15 years. Calculates payment needed to pay off balance in 15 years and encourages voluntary increase in payment.



MPSERS Issues



✓ Pension Plus plan

- For all new employees after July 1, 2010
- Combines Pension (defined benefit) component with a new Savings (defined contribution) component.
- Defined Benefit component:
 - Same contribution levels
 - Not eligible for retirement until age 60, with a minimum of 10 years of service.
 - Final Average Compensation (FAC) based on 5-year average, instead of 3-year.
 - Cannot purchase service credit.
 - Does not provide post-retirement increases.



MPSERS Issues



✓ Pension Plus plan (continued)

- Defined Contribution component:
 - Employee initially contributes 2% of their pay.
 - 1% employer match of the employee's 2% contribution.
 - Employee has option to a) opt out of this contribution (losing employer match as well) or b) increase their contribution up to IRS limit (currently \$16,500, \$17,000 in 2012).
 - Employee is immediately 100% vested in their contributions to the savings component and are 100% invested in employer match contributions after 4 years.
- More information available at www.mipensionplus.org



MPSERS Issues



✓ New Health Care Fund

- Public Act 75 of 2010 requires additional 3% employee contribution into a fund for retiree health insurance (1.5% for employees making < \$18,000).
- These contributions are currently being held in escrow based on a preliminary court injunction, while the legality of these required contributions are determined. This has caused a temporary 3% increase in the MPSERS rate, until this can be resolved.
- The lawsuit contesting these health care contributions remains under review in the Court of Appeals. Schools will continue to withhold this throughout this appeal process. ORS will advise schools as soon as the lawsuit is resolved.
- The 3% employee contribution should be shown in Box 14 of W-2.



MPSERS Issues



✓ Recent Issues

- Missing Detail 4 record fees
- Core Service employees
- Final Payroll Detail process now online
- ORS is moving to a online only Retirement Application process. Retirees will have to apply in miAccount.
- Pension income will be taxable under P.A. 28.
- P.A. 54 prohibits the retroactive payments of wages after labor contracts have expired, so ORS anticipates no more retroactive pay adjustments.



Year End Reporting



✓ End of Year Adjustments:

- Group Term Life Insurance over \$50,000
 - Amount to include is based on a table
- Personal use of district owned automobile
 - Calculation of the value of company provided automobile which is used for personal purposes
 - Rates change annually
- FICA Wage Limits
- 3rd Party Sick Pay



Year End Reporting



- ✓ Quarterly file Form 941 by the last day of the month following the end of the quarter
- ✓ Annually file Form W-3 with Social Security Administration by February 28 the following year
- ✓ Annually file form W-2 with Social Security Administration by February 28 the following year
- ✓ Distribute employee copies of W-2 by January 31



Year End Reporting



- ✓ **Must reconcile Form W-3 to quarterly Form 941s**
 - 403(b) retirement plans included in Social Security and Medicare wages, not included in Federal or State taxable wages
 - Cafeteria Plans not included in Social Security, Medicare, Federal, or State taxable wages
- ✓ **Keep copies of any undeliverable W-2s including original envelope**
- ✓ **New code BB for 403(b) Roth Contributions**



Year End Reporting



- ✓ **Form W-2 and W-3 Processing:**
 - Order required paper copies of forms early
 - Do a test run and check output
 - Verify that state and local jurisdictions are correct – may need multiple if employee moved
 - Verify special deduction codes are reporting correctly
 - Employers can issue electronic W-2's to employees if they consent
 - Employers submitting more than 250 W-2s must submit electronically online through SSA Business Services Online website at www.ssa.gov/bsowelcome.htm.



Year End Reporting



✓ Requirement to report the cost of coverage under an employer-sponsored group health plan on Form W-2:

- Part of the Affordable Care Act passed in March, 2010.
- IRS Notice 2011-28 delayed implementation:
 - 2011 W-2's – Optional
 - 2012 W-2's – Mandatory for employers that issued more than 250 W-2's in 2011
 - 2013 W-2's – Mandatory for all employers.
- Amount reported is not taxable.
- Intended to be informational only, providing employees with greater transparency into overall health care costs.



Year End Reporting



✓ Verify Social Security Numbers

- Employer is responsible for ensuring SSN and name on W-2 match up
- This can be done by comparing Social Security card
- Can also be done by logging into SSA site at www.socialsecurity.gov/bso/bsowelcome.htm.
 - Must be preregistered
- See publication 2108: Federal Agency TIN Matching Program



Payroll Records Retention



✓ 2006 Record Retention and Disposal Schedule for Michigan Public Schools:

- Updated in September 2006
- Supersedes the March 1997 schedule
- By law, records must be kept in accordance with this schedule, at a minimum
- Additional retention beyond schedule is acceptable
- New schedule is very comprehensive and covers all school records, including payroll
- Schedule can be found on state website at <http://www.michigan.gov/recordsmanagement/>



Additional Resources



✓ IRS Publications:

- Publication 15 Circular E, Employer's Tax Guide
- Publication 15-B Employer's Tax Guide to Fringe Benefits
- Publication 15-A Employer's Supplemental Tax Guide
- All available online at IRS Website at www.irs.gov



Additional Resources



✓ Websites:

- Social Security Administration: www.ssa.gov
- Department of Labor: www.dol.gov
- State of Michigan: www.michigan.gov
- Michigan Department of Treasury: www.michigan.gov/treasury
- MPERS: www.michigan.gov/orsschools
- Michigan Wage and Hour Division
<http://www.michigan.gov/cis/0,1607,7-154-27673---,00.html>



Parting Thoughts



- ✓ Are you letting your software do the work?
- ✓ Do your time sheet forms and leave request forms need a makeover?
- ✓ Are you actively involved in the oversight of payroll activities?
- ✓ Your district principals/administrators and other supervisory employees need to play an active role too!
- ✓ Keep yourself current with payroll issues.
- ✓ Communication is key!



Contact Us With Any Questions



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Finalize Credit for Attendance



- **Return form to MIEM**
 - Mail - 1001 Centennial Way, Suite 300, Lansing, MI 48917
 - Fax – 517.327.0771
 - E-mail – cbyam@msbo.org
- **Receive e-mail no later than one week following this Webinar to complete evaluation to receive SB-CEUs**



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Thank You!



Payroll and Related Personnel Issues

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