

**Department of Employee Trust Funds**  
**WISCONSIN RETIREMENT SYSTEM ADMINISTRATION MANUAL**

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**CHAPTER 5 — EARNINGS AND CREDITABLE SERVICE**

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**500 Definition of Reportable Earnings**

Wis. Stat. § 40.02 (22) (a), defines earnings for WRS purposes as:

"The gross amount paid to an employee by a participating employer as salary or wages, including amounts provided through deferred compensation or tax shelter agreements, for personal services rendered to or for an employer, or which would have been available for payment to the employee except for the employee's election that part or all of the amount be used for other purposes and also includes the money value, as determined by the employer, of any board, lodging, fuel, laundry and other allowances provided for the employee in lieu of money. For purposes of this paragraph, the gross amount shall be determined prior to deductions for taxes, insurance premiums, retirement contributions or deposits, charitable contributions or similar amounts and shall be considered received as of the date when the earnings would normally be payable by the employer. For reporting and computation purposes, fractions of a dollar shall be disregarded in determining annual earnings."

**The definition of WRS earnings differs from the definition of wages for IRS purposes. Some major differences include:**

- Deferred compensation and tax-sheltered amounts are included in WRS earnings, but are not included in gross wages for IRS purposes.
- Retroactive wage settlements must be reported to the year in which they would have been paid for WRS purposes, but are reported in the year when paid for IRS purposes.

**EXAMPLE 1:** In June of 2007 you settle contracts for 2006 and 2007. The portion of the settlement that is retroactive wages for 2006 must be reported to year 2006 for WRS purposes, with contributions invoiced and paid at the 2006 rate. The 2007 portion of the retroactive wages must be included as current year earnings on that month's WRS *Monthly Remittance Report* (ET-1515).

- Section 125 cafeteria reduction amounts are reportable for WRS purposes, but are not included in wages for IRS purposes.

The provisions of Wis. Stat. Chapter 40 relating to WRS earnings will always take precedence over any conflicting public entity resolution, order, ordinance, bargaining unit agreement, etc., for purposes of administering the WRS. An employer may not redefine payments as WRS earnings if the earnings do not meet the criteria in Chapter 40, Wis. Stat.

## **501 Earnings Reportable for WRS Purposes**

Earnings to be reported to WRS include, but are not limited to, the following:

- A. Cash payments for personal service.
- B. Overtime pay (refer to subchapter 502).
- C. Vacation pay (refer to subchapter 502).
- D. Sick pay (refer to subchapter 502).
- E. Clothing allowances provided to employees to purchase clothing that is required for employment but is also reasonably adaptable for street wear and is considered the "property" of the employee (refer to subchapter 506E for a description of non-reportable uniform allowances).

**EXAMPLE 1:** Undercover police officers may be required to wear blue jeans, tennis shoes and tee shirts for use in undercover duties. The value of the allowance to purchase these items is reportable for WRS purposes because the clothing is reasonably adaptable for street wear.

**EXAMPLE 2:** Special Education aide at a local school district is provided an annual allowance for the purchase of a swimsuit due to the damaging effects of the pool's chlorine. Any unused portion of the allowance that the employee is permitted to keep, or the entire allowance, is reportable for WRS purposes if the employee is permitted to make personal use of the swimsuit.

**EXAMPLE 3:** Kitchen staff at a local school district are required to wear white shirts, white pants and white shoes while on duty. The district provides them with an annual clothing allowance to purchase these clothing items. No specific clothing or shoe style is mandated, only the color. The annual clothing allowance is reportable earnings for WRS purposes since the clothing is adaptable for street wear.

- F. Value of free meals, lodging or allowances provided in lieu of money (money value to be determined by employer), with certain exceptions explained in subchapter 506G.

**EXAMPLE 1:** A city hires a new administrator from another part of the country. Rather than pay the administrator entirely in dollars for personal services rendered, the city agrees to provide free room and board to the new administrator until the administrator is able to secure permanent living arrangements. The value of this free room and board is considered earnings for WRS purposes.

**EXAMPLE 2:** A school district is contractually obligated to provide one free meal per day to its WRS covered support staff. The value of the meals, as determined by the employer, is WRS reportable earnings as it is part of the employment and is provided in lieu of money.

- G. Value of using an employer owned vehicle for employee personal use without being required to reimburse the employer. The employer is responsible for maintaining documentation to support the portion of the value reportable as WRS earnings.

**EXAMPLE 1:** A county provides an unmarked police vehicle to a deputy for work-related activities. The deputy is permitted to use the vehicle for personal use without reimbursing the county. The value of using the county owned vehicle for the deputy's personal use is reportable for WRS purposes provided documentation is maintained.

- H. Vehicle allowance for using a personal vehicle for non work-related activities when detailed records are kept. The employer must maintain detailed records to support the portion of the car allowance reportable for WRS purposes.

**EXAMPLE 1:** A city provides the fire chief with a monthly car allowance, as it is often necessary for the chief to use his personal vehicle for work-related activities. During some months the car allowance exceeds the actual expense the chief incurs for using his personal vehicle for work-related activities. That portion of the vehicle allowance

not used for work-related activities is reportable as WRS earnings, provided the employer maintains proper documentation.

- I. Value of a general expense allowance when used for non work-related expenses and for which reimbursement is not made by the employee. The employer must maintain documentation to support the portion of the general expense that is reportable as WRS earnings.

**EXAMPLE 1:** A city provides the mayor with a general expense allowance to cover work-related expenses incurred in the performance of the job. The mayor receives this allowance as an advance and is permitted to claim the allowance even if work-related expenses are not incurred. The portion of the general expense allowance **not** used for work-related expenses is earnings for WRS purposes, provided proper documentation is maintained.

- J. Retroactive pay for service performed. These earnings must be allocated to the years in which the earnings would normally have been paid (refer to Chapter 11).
- K. Length of service bonus, performance bonus, or merit pay (unless these payments are contingent on the employee terminating eligible employment) are WRS reportable to the year when paid.
- L. Section 125 Cafeteria Plan reduction amounts (reimbursement accounts for medical expenses, daycare expenses, etc.).
- M. Salary received from the **employer** while the employee serves jury duty.
- N. Credit for earnings that would have been paid during the period an employee receives temporary disability benefits from worker's compensation (refer to subchapter 504).
- O. Earnings paid for used compensatory time. Unused compensatory time converted to pay is only reportable to the year in which it was earned. When paid at termination, the payment is only reportable if the termination date is extended by the corresponding amount of time. Refer to subchapter 503 for information about payments at termination, and subchapter 506-B for information regarding lump sum payouts.
- P. Back pay that represents salary paid as a result of a compromise settlement (refer to Chapter 13 for reporting details).
- Q. Compensation paid during a leave of absence (refer to subchapter 505).
- R. Compensation for part-time police officer training time that is paid by the city and reimbursed by the state.
- S. Compensation provided to EMTs and firefighters for attending mandated training and/or drill sessions.

- T. Compensation that would have been payable to a state elected official prohibited by law from receiving an increase in compensation during the official's term in office.
- U. Earnings for on-call, standby, extra-curricular or other service which is incidental to the primary employment. In situations where compensation is paid on a flat fee basis (regardless of hours worked), the following formula should be used to determine hours of service to report: divide the amount paid annually by the participating employee's current basic pay rate and report the resulting quotient for hours of service.  
  
**NOTE:** One year is the maximum amount of service granted annually (Wis. Admin. Code § ETF 10.03(7)(c)).
- V. Credit, upon return to employment, for earnings that would have been paid during the period an employee left employment to perform in the uniformed services (refer to Chapter 22).

## 502 Overtime Pay, Vacation Pay, Sick Pay, (Accumulated Leave)

Overtime pay, vacation pay, sick pay, and compensatory time pay are earnings for WRS purposes when used or when paid regularly to an employee during an employment relationship.

Lump sum pay outs for accumulated leave made routinely (at least once a year) to all employees on a regular basis, regardless of whether the employee terminates, are earnings for retirement purposes. In these situations, "all employees" refers to all employees within a bargaining unit, a specific employment category or classification, all management employees, all employees who have met specific criteria, etc.

**EXAMPLE 1:** Lump sum payments made to all employees for unused sick leave or vacation at the end of each year are earnings for WRS purposes. Also, if an employee terminates prior to this **routine payment** date and receives the lump sum payment at the time of termination, the payment is reportable for WRS purposes.

**EXAMPLE 2:** A city limits its administrative staff to 500 hours of accumulated sick leave. Any sick leave accumulation exceeding 500 hours is paid out at the employee's basic hourly rate at year-end. The value of the lump sum sick leave payments exceeding 500 hours is WRS reportable earnings because it is being paid routinely to all administrative staff employees who have reached the 500-hour maximum sick leave accumulation.

## 503 Payments at Termination

When a payment for accumulated vacation, sick leave or compensatory time is made in a lump sum specifically because of termination (unless the employee is applying for a disability annuity), **the lump sum payment is excluded from earnings** for

WRS purposes (Wis. Stat. § 40.02 (22) (b) 6.). The total amount due the employee could be made in periodic installments and would continue to be excluded from earnings.

Accumulated leave, vacation, or compensatory time paid at termination is WRS reportable only if used and you extend the termination date by the corresponding amount of time.

**EXAMPLE 1:** An employee terminates employment with two weeks of unused vacation time. The last day of work is June 6. For the vacation earnings to be WRS reportable, the termination date must be extended to June 20 (the amount of the unused vacation time).

ETF processing of disability annuity applications require the employer certify all earnings have been paid, including pay for vacation and sick leave. Last earnings date should be extended accordingly and corresponding service hours reported.

**EXAMPLE 1:** An employee applying for a disability annuity last works on June 6. At that time they still have two weeks of accumulated vacation leave and one week of accumulated sick leave. Because the employee is applying for a disability benefit the accumulated leave is WRS reportable earnings and the employer is required to report both the additional hours and earnings associated with the 2 weeks of accumulated vacation leave and 1 week of accumulated sick leave, extending the last earnings date accordingly. In this example, the employer reports a last earnings date of June 27<sup>th</sup>, fifteen working days after the last day worked.

Participating employees whose compensation plan or contract provides for converting unused sick leave to pay group health insurance premiums and who qualify for a disability benefit, can either use sick leave until exhausted or convert it for credits to pay health insurance premiums. To convert unused sick leave to pay health insurance the employee must terminate WRS covered employment for the sick leave to no longer be considered earnings for WRS purposes. Then the disability benefit will begin earlier.

**When determining whether to report accumulated leave paid at termination, the deciding factor is whether the leave is used or paid off.**

- Used leave is covered earnings for retirement purposes and extends the employee's termination date from the last day worked for the time represented by those earnings.
- Pay-off of accumulated leave at termination, whether in a lump sum or periodic installments, is not covered earnings for retirement purposes (except as provided in subchapter 502). The last day worked is normally the termination date, unless the employee was on an unpaid leave prior to termination. There should be a signed agreement between the employee and the employer stating that the leave is being used or paid off to eliminate questions concerning the handling of payments for accumulated leave.

## 504 Retirement Credit for Worker's Compensation

Employers must report hours and earnings for any WRS participating employee during any period they receive Worker's Compensation benefits under Wis. Stat. § 102.43. There is no distinction between partial or total disability; "temporary" disability is the criterion.

- Earnings must be reported at the rate that would have been paid had the disability not occurred, including adjustments to the pay rate during that period.
- Creditable service must be reported on the same basis as was reported immediately prior to the temporary disability.
- If the initial injury was caused through work at another employer, but a recurrence results in a Worker's Compensation award, the present employer must comply with the requirements of this section.
- Once a permanent disability is determined or the employee terminates employment, the employer discontinues service and earnings reporting under § 40.29, Wis. Stat.
- The employer must pay all employee and employer contributions required on the earnings reported for the employee. Once the employee has returned to work, the employer may recover – from the employee's future earnings – the contribution amount paid on behalf of the employee, which customarily would have been paid by the employee.
- The amount recoverable may not be deducted from the employee's paycheck at a rate greater than 5% of each payment of earnings (Wis. Stat. § 40.29).

## 505 Pay During a Leave of Absence or Sabbatical

Earnings paid to a WRS participating employee during a leave of absence or sabbatical are reportable for WRS purposes.

### **Hours are determined and reported by the employer as follows:**

- If the compensation paid to the employee during the leave is less than the earnings paid in the immediately preceding time period of the same length as the leave:
  - Hours credited are to be prorated based on the ratio of pay during the leave to the earnings that were received in the preceding period.
  - Hours are computed by dividing the compensation paid during the leave by the earnings paid in the **preceding** period and multiplying the result by the hours reported for that preceding period (Wis. Admin. Code § ETF 10.07 (2)(a)).

**EXAMPLE 1:** In 2005 an employee received \$32,000 earnings. In 2006 the employee would have received \$35,000 had he not taken a leave

of absence. During the paid leave of absence, the employee receives 60% of his salary or \$21,000. The corresponding hours are calculated by:

$\$21,000 \text{ divided by } \$32,000 \text{ (pay in preceding year)} = 66\%$   
 $1,904 \text{ hours} \times 66\% = 1,257 \text{ hours}$

- If the compensation paid to the employee during the leave is equal to or greater than the earnings paid for the hours immediately preceding (in a time period of the same length as the leave) then the hours reported shall be the same as the preceding period.

## 506 Earnings Not WRS Reportable

- A. Employer contributions for Social Security, insurance, health savings accounts and retirement.
  - B. Lump sum cash payments made specifically at termination or due to death of an employee including:
    - Accumulated vacation
    - Sick leave or compensatory time
    - Any payment contingent on the employee having terminated employment or having died, including a bonus or any form of severance pay which is made solely because the employee terminates or dies. (Refer to subchapter 503 for a further description of payments at time of retirement.)
- EXAMPLE 1:** An employer wants to improve an employee's WRS benefit at the retirement by providing a retroactive salary increase. As a result, the employee's average three high salary years will increase creating a higher monthly WRS annuity. The salary increase is not WRS reportable earnings because it is made during the employee's last five years of employment, is not the result of a significant change in the employee's duties, and is not broadly applicable to the employees of the employer.
- C. Payments received in lieu of sick leave (e.g., Income Continuation Insurance payments to employees).
  - D. Payments in lieu of fringe benefits normally paid for or provided by the employer, but which can be paid to the employee at the employee's option. This includes IRAs or Tax Deferrals purchased with monies originally intended to purchase another fringe benefit (e.g., health insurance). This also includes banked vacation for which a cash payment is made at employer's option/discretion. (Refer to subchapter 502.)
  - E. Uniforms purchased directly by the employer or uniform allowances (either advances or reimbursements to employees) for the purchase of uniforms required to be worn in the performance of service for the employer that are not of

a type normally adaptable to general or continued wear such that they could take the place of ordinary clothing.

**EXAMPLE 1:** A city provides an annual allowance to police officers so that they can purchase blue or brown uniforms, hats, and bulletproof vests. This clothing is not adaptable for everyday use, but instead is worn to perform a job for the employer. This uniform allowance is **not** earnings for WRS purposes.

**EXAMPLE 2:** A local fire department supplies its firefighters with blue pants and blue T-shirts with the department's logo emblazoned on the front for required wear while on duty at the firehouse. Though some firefighters may wear this clothing while on personal time, the clothing is provided for use as firehouse attire and is not reasonably adaptable for everyday personal use. The value of the clothing is **not** earnings for WRS purposes.

- F. Amounts paid as advances or reimbursements for ordinary and necessary expenses (meals, lodging, travel, etc) incurred while the employee is conducting the business of the employer. The employer must identify these advances or reimbursements either by making a separate payment or by specifically indicating separate amounts where both wages and expense allowances are combined in a single payment.

**EXAMPLE 1:** The employer directs an employee to attend an out-of-town training session. The employer reimburses the employee for a lunch expense. The reimbursement is not WRS earnings.

**EXAMPLE 2:** As part of their job, a city employee is required to travel extensively throughout the state. The employee incurs expenses for meals and lodging for which the employer reimburses the employee. For extended travel trips, the employee receives a partial advance of money to be used exclusively for meal and lodging expenses. The payments are not WRS earnings.

**EXAMPLE 3:** A village employee is asked to use their personal vehicle to deliver village reports to a state agency. The employee is reimbursed for use of their personal car. The employee received this reimbursement for a business related expense incurred for the convenience of the employer; it is not WRS earnings.

- G. The value of meals provided on the employer's premise for the convenience of the employer and the employee does not have the option of taking cash.

**EXAMPLE 1:** A county elected official is asked by the employer to participate in a luncheon seminar with state officials on the county's premise. The value of the lunch is not WRS earnings.

- H. The value of the use of an employer owned vehicle when used for commuting purposes or in conducting employer business for the convenience of the employer.

**EXAMPLE 1:** A city provides the police chief with a city owned vehicle to ensure that the chief has access to transportation 24 hours a day. The chief also uses the vehicle for personal use, but is required to reimburse the city for the personal use of the vehicle.

- I. Payments for damages, attorney fees, interest or penalties.
- J. Amounts paid to students under age 20 who began employment on or after April 23, 1992, and who are regularly enrolled or expected to be enrolled as full-time students (grades 1-12) in a public, private, or parochial elementary or high school.
- K. Payments on a fee-for-service basis to an independent contractor (refer to subchapter 313).
- L. Payments made in the last five years of employment that are the result of a change in the method of computing the base compensation unless the change is permanent and applicable to all employees or is the result of significant changes in the employee's duties.
- M. Earnings attributable to the non-WRS participating employers of a joint instrumentality.

## 507 Reportable and Non-Reportable Earnings Guide

Reportable AND Non-Reportable Earnings Guide				
Compensation Type	Payment Type	Example	WRS Reportable	Comments
<b>Advance</b>	Cash payment	Advance for ordinary and necessary expenses incurred in the business of the employer (e.g., meals, lodging, etc.)	No	The advance must be identified separately by the employer when the payment is made.
<b>Allowances (See Clothing, Expense, Lodging And Vehicle)</b>				
<b>Attorney Fees</b>	Cash payment	Employee is awarded a payment representing attorney fees resulting from a grievance, compromise settlement, court order, etc.	No	Cash settlements for attorney fees are considered damages and are not reportable for WRS purposes.

<b>Reportable AND Non-Reportable Earnings Guide</b>				
<b>Compensation Type</b>	<b>Payment Type</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
<b>Back Pay Awards</b>	Cash payment	Payment resulting from a compromise settlement, court order, etc. which represents back wages.	1. Yes	1. Back pay awards are reportable for WRS purposes if the settlement agreement meets the requirements in Wis. Admin. Code ETF 20.12.
			2. No	2. If all requirements in Wis. Admin. Code ETF 20.12 are not met in the settlement agreement, a back pay award is not reportable for WRS purposes.  Refer to Chapter 13 – Compromise Agreements
<b>Cafeteria Plan (IRC Section 125) Reductions</b>	Reductions from IRS gross wages	Medical expense, dependent care expense, and insurance premiums expense reductions.	Yes	WRS earnings include amounts deducted from gross wages for Section 125 plans.
<b>Cash</b>	Cash payments of salary, wages, etc.	Payment for personal services rendered to an employer.	Yes	Amounts paid to an employee for personal services rendered are reportable for WRS purposes.
<b>Clothing Allowance</b>	1. Cash advancement or reimbursement for clothing that is adaptable for street wear	1. Blue jeans, tennis shoes, tee shirts, etc. issued to undercover police officers	1. Yes	1. Clothing allowances used for the purchase of normal street wear benefit the employee as well as the employer and are, therefore, reportable for WRS purposes.
	2. Cash advancement or reimbursement for standard uniforms (non-adaptable to regular street wear)	2. Official uniforms (e.g. police, fire, bus driver, etc.) including hats, bulletproof vests, etc.	2. No	2. Standard uniforms are for the benefit of the employer only and are not reportable for WRS purposes.

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<b>Reportable AND Non-Reportable Earnings Guide</b>				
<b>Compensation Type</b>	<b>Payment Type</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
<b>Compensatory Time</b>	1. Cash payments resulting from use of compensatory time and payouts for unused, accumulated compensatory time made routinely (at least once a year).	1. An employee works extra hours and receives compensatory time that is used later during the year or, if not used, is paid out to the employee at regular intervals (e.g., once a year, twice a year, etc.).	1. Yes	1. Payment for compensatory time is earnings for WRS purposes when used or when paid regularly to an employee during the employment relationship (regardless of whether or not the employee terminates).
	2. Cash payment for unused compensatory time specifically due to termination.	2. An employee receives a lump sum payment at time of termination for unused, accumulated compensatory time and the employer does not otherwise make payments for compensatory time.	2. No	2. Payment for unused compensatory time paid specifically due to termination is not reportable for WRS purposes.  Refer to subchapters 502 and 503.
	3. Cash payment at termination when the employer has a regular payout.	3. An employee terminates on July 1, their regular payout of unused comp. time occurs every year on August 1.	3. Yes	3. Refer to subchapters 502 & 503
	4. Cash payment at termination when the employer does not have a regular payout.	4. An employee terminates on July 1 and cashes in their comp. time earned over the duration of their employment.	4. No	4. Pay-off of accumulated leave at termination, whether in a lump sum or periodic installments, is not WRS reportable. Refer to subchapter 503.
<b>Contributions Paid by Employer</b>	Employer's share of contributions	Employer's share of: insurance premiums, retirement contributions, Social Security taxes, etc.	No	Employer share of contributions and premium are not reportable for WRS purposes.
<b>Contract Buy Outs</b>	Cash payment		No	Wis. Stat. § 40.02 (22) (b) 8.
<b>Damages Payment</b>	Cash settlement	Employer agrees to pay employee an arbitrary amount to compensate for some wrongdoing on the part of the employer.	No	A cash settlement may not be considered earnings for WRS purposes unless it meets the requirements of Wis. Admin. Code ETF 20.12.  Refer to subchapter 1302.
<b>Deferred Compensation</b>	Amounts deferred from gross wages	Employee participates in a tax-sheltered program under section 403(b) of the IRC or a deferred compensation program under section 457 of the IRC, etc.	Yes	Amounts paid for personal services rendered, but deferred for tax purposes are reportable for WRS purposes in the year when earned.
<b>Employee Reimbursement Accounts</b>	Deduction from gross wages for tax purposes	See examples under Cafeteria Plans.	Yes	Amounts paid for personal services rendered, but deducted from gross wages for tax purposes are reportable for WRS purposes.

<b>Reportable AND Non-Reportable Earnings Guide</b>				
<b>Compensation Type</b>	<b>Payment Type</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
<b>Expense Allowance</b>	Cash payment	A city mayor receives a monthly expense allowance for use in attending work-related functions and activities.	No	Expense allowance payments used for the ordinary and necessary expenses incurred in the business of the employer are not reportable for WRS purposes. The employer must make separate payments or indicate separate amounts where both wages and expense allowances are combined in a single payment.
<b>Extra Curricular Activity Pay</b>	Cash payment	A teacher also performs as the football team's coach.	Yes	The additional earnings are reportable for WRS purposes. Hours are calculated by dividing the amount paid annually by the employee's current basic pay rate.
<b>Fringe Benefit</b>	Cash payment	An employee requests and receives a direct payment or a payment to an account (e.g. IRA or tax-deferred annuity) on their behalf, or an increase in wages, instead of using the money for life and disability insurance premiums.	No	Payments in lieu of fringe benefits normally paid for or provided by the employer, but which can be paid to the employee <b>at the employee's option</b> are not reportable for WRS purposes.
<b>Health Savings Account (HSA)</b>	1. Employee salary reduction  2. Employer Contribution	1. Employee instructs employer to take a pre-tax deduction from salary for deposit into a HSA.  2. Employer makes a monthly contribution to an employee's HSA in return for employee's election of a higher deductible health insurance option.  3. Employer makes a monthly contribution to their employees' HSA accounts	1. Yes  2. No  3. No	Employee salary reductions for deposit to an HSA are earnings for WRS purposes since WRS reportable earnings are gross earnings prior to deductions for insurance premiums, required WRS contributions, etc.  Employer contributions to an employee's HSA in return for the employee's election of a specific health plan, in lieu of other benefits, or to defray higher out-of-pocket expenses is considered a fringe benefit and not WRS earnings.
<b>Independent Contractor Payments</b>  <b>Note: Must meet federal Independent Contractor rules. See IRS publication 1779.</b>	Fee-for-service cash payment	Employer hires a system analyst/programmer working for a consulting firm to complete a special project.	No	An independent contractor is not an employee of the employer and therefore, the earnings are not reportable for WRS purposes.
<b>Insurance Benefit Payments</b>	Cash payment	Income continuation or life insurance payments made to an employee by an insurance carrier.	No	Insurance payments are not payment for services rendered and are not reportable for WRS purposes.

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<b>Reportable AND Non-Reportable Earnings Guide</b>				
<b>Compensation Type</b>	<b>Payment Type</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
<b>Interest Payments</b>	Cash payment	An employee receives a settlement award from an employer that includes interest on lost back wages.	No	Amounts paid as interest in settlement agreements are considered damages and are not reportable for WRS purposes.
<b>IRA Payment</b>	Payment to an IRA on behalf of an employee	An employer puts money into an IRA for an employee instead of using the money to pay health insurance premiums.	No	Payments in lieu of fringe benefits normally paid for by the employer, but which can be paid to the employee <b>at the employee's option</b> are not reportable for WRS purposes.
<b>Joint Instrumentality Earnings</b>	Salary	An employee works for a joint library district created by six towns and villages, only one of which is a WRS participating employer. All six entities pay a portion of the salary.	Yes/No	Although all hours worked are used in determining the employee's WRS eligibility, only the hours and earnings attributable to the WRS participating employer are reportable.
<b>Jury Duty Compensation</b>	Cash payment	An employee receives regular wages from the employer while serving jury duty.	Yes	The regular salary amount is reportable for WRS purposes.  NOTE: Any amount of money paid to the employee by the court is not reportable for WRS purposes.
<b>Length of Service Payment</b>	Cash payment	An employer pays an annual bonus to all employees based on a specified number of years of service.	Yes	This payment is reportable for WRS purposes as long as it is not contingent on termination of employment.
<b>Lodging Advancement or Reimbursement</b>	1. Lodging provided in lieu of salary	1. An employer provides a new employee with lodging in lieu of salary.	1. Yes	1. The value of the lodging is reportable for WRS purposes if it is not provided for the convenience of the employer or as a condition of employment.
	2. Cash advance or reimbursement	2. An employee receives cash reimbursement for lodging expenses incurred while attending a work-related conference or training seminar.	2. No	2. Advancement or reimbursement for ordinary and necessary expenses incurred in the business of the employer are not reportable for WRS purposes.
<b>Leave of Absence Compensation</b>	Cash payment	A teacher or police officer, for example, receives payment during an administrative leave of absence.	Yes	These earnings are reportable for WRS purposes.  Refer to subchapter 505 for calculating service hours.

<b>Reportable AND Non-Reportable Earnings Guide</b>				
<b>Compensation Type</b>	<b>Payment Type</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
<b>Meals Advancement or Reimbursement</b>	1. Cash payment	1. An employee receives cash reimbursement for meal expenses incurred while attending a work-related conference or training seminar.	1. No	1. Advancement or reimbursement for ordinary and necessary expenses incurred in the business of the employer are not reportable for WRS purposes.
	2. Free meal in lieu of salary	2. Free meals provided by the employer in lieu of salary.	2. Yes	2. The value of the meal is reportable for WRS purposes if the employee has the option of taking cash in lieu of the free meal, if the meal is not a condition of employment and if the meal is not provided for the convenience of the employer.
	3. Free meal for the employer's convenience	3. As a condition of employment, a police dispatcher is provided with a meal on the premises of the employer strictly for convenience of the employer. The employee has no option to request cash payment in lieu of this free meal.	3. No	3. The value of a free meal which is provided to an employee for the convenience of the employer (as a condition of employment) and for which the employee may not take cash payment is not reportable for WRS purposes.
<b>Merit Pay</b>	Cash payment	An employee receives a one-time or base building merit pay award for exceptional job performance.	Yes	The merit pay is reportable as earnings for WRS purposes as long as the merit award is not contingent on termination of employment.
<b>Moving Expenses</b>	Cash payment	An employee receives payment to cover moving expenses.	No	Payments made to relocate a new employee are not WRS reportable.
<b>On-call Pay</b>	Cash payment	A village EMT employee is paid a minimal amount per hour for being on-call.	Yes	The on-call earnings are reportable for WRS purposes.  Hours are calculated by dividing the amount paid for on-call services in the annual earnings period by the employee's current base pay rate.
<b>Overtime Pay</b>	Cash payment	An employee receives overtime pay for hours worked in excess of 40 per week.	Yes	Overtime pay is reportable for WRS earnings when paid regularly to an employee during an employment relationship.
<b>Penalty Payments</b>	Cash payment	An employee receives a settlement award from an employer that includes a penalty payment to the employee for wrong doing on the part of the employer.	No	Amounts paid as penalties in settlement agreements are considered damages and are not reportable for WRS purposes.

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<b>Reportable AND Non-Reportable Earnings Guide</b>				
<b>Compensation Type</b>	<b>Payment Type</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
<b>Reimbursement (see Clothing, Lodging and Vehicle)</b>				
<b>Sabbatical (see Leave of Absence Compensation)</b>				
<b>Severance Pay</b>	Lump sum or installments	Employee receives a severance payment resulting from, or to secure, a resignation.	No	Amounts paid which are not compensation paid for services rendered to or for an employer are not WRS reportable.
<b>Sick Leave Pay</b>	Cash payment	<ol style="list-style-type: none"> <li>All employees of an employer receive an annual pay out for unused sick leave.</li> <li>An employee's last day worked is January 29, 2007. The employee receives payment for 20 days of unused sick leave and the employer extends the termination date to February 26, 2007.</li> <li>An employee's last day worked is January 30, 2007. The employee receives payment for 28 days of unused sick leave, but the employer does not extend the employee's termination date beyond January 30.</li> </ol>	<ol style="list-style-type: none"> <li>Yes</li> <li>Yes</li> <li>No</li> </ol>	<ol style="list-style-type: none"> <li>The sick leave pay out is reportable for WRS purposes when paid regularly to an employee during an employment relationship, when made routinely to all employees on a regular basis, and when not paid in a lump sum solely because of termination.</li> <li>The sick leave pay out is reportable for WRS purposes at termination when the payment results in extending the employee's termination date to account for the pay out.</li> <li>The sick leave pay out is not reportable for WRS purposes at termination if the termination date is not extended to account for the accumulated leave unless the employer routinely pays out sick leave.</li> </ol>
<b>Standby (See On Call)</b>				
<b>State Elected Official Salary Increase</b>	Delayed effect	A State senator votes to increase the pay of senators and the law is passed. The senator is prohibited from receiving the pay increase until the next term.	Yes	The value of the increase in compensation the State elected official would have received had it not been prohibited by law is reportable for WRS purposes.
<b>Tax Deferral (See Deferred Compensation)</b>				
<b>Tax Shelter (See Deferred Compensation)</b>				
<b>Training Pay</b>	Cash payment	A part-time police officer is sent to training that is paid by the city and may be reimbursed by the state.	Yes	If the employee is otherwise eligible for WRS, the training pay is reportable by the city for WRS purposes.

<b>Reportable AND Non-Reportable Earnings Guide</b>				
<b>Compensation Type</b>	<b>Payment Type</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
<b>Vacation Pay</b>	Cash payment	<p>1. All employees of an employer receive an annual pay out for unused vacation.</p> <p>2. An employee's last day worked is January 29, 2007. The employee receives payment for ten days of unused vacation and the employer extends the date of termination to February 12, 2007.</p> <p>3. An employer routinely pays employees for unused vacation on an annual basis. If an employee terminates prior to the annual pay out, the pay out is made at termination.</p> <p>4. An employee's last day of work is January 29, 2007. The employee receives payment for 15 days of unused vacation. The employer does not regularly pay unused vacation and the employer will not allow the employee to extend their termination date to use vacation. The employer reports a termination date of January 29, 2007.</p>	<p>1. Yes</p> <p>2. Yes</p> <p>3. Yes</p> <p>4. No</p>	<p>1. Vacation pay out is reportable for WRS purposes: when paid regularly to an employee during an employment relationship; when made routinely to all employees on a regular basis; and when not paid in a lump sum solely because of termination.</p> <p>2. The vacation leave pay out is reportable for WRS purposes at termination when the leave is used resulting in the extension of the employee's termination date.</p> <p>3. The vacation pay out is reportable for WRS purposes as the employer regularly pays out unused vacation annually or upon termination if the employee terminates prior to the annual pay out.</p> <p>4. The vacation pay out is not reportable for WRS purposes at termination if the termination date is not extended and the employer does not regularly pay out unused vacation.</p>

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<b>Reportable AND Non-Reportable Earnings Guide</b>				
<b>Compensation Type</b>	<b>Payment Type</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
<b>Vehicle Advancement, Allowance and Reimbursement</b>	1. Cash payment – refer to subchapters 506F.	1. An employee receives an allowance, advancement or reimbursement for use of a personal vehicle for work-related meetings and events.	1. No	1. Advancement or reimbursement for ordinary and necessary expenses incurred in the business of the employer are not reportable for WRS purposes. <b>Unused amounts available to the employee for personal use are WRS reportable. Refer to 501H.</b>
	2. Value of personal use of employer-owned vehicle – refer to subchapter 501G.	2. An employee receives use of an employer-owned vehicle for work and personal use and the employee is not required to reimburse the employer for personal use of this vehicle.	2. Yes	2. Only the value of the personal use of the employer-owned vehicle is reportable for WRS earnings. The employer must maintain detailed reporting of personal versus work-related use.
	3. Value of work-related use of an employer-owned vehicle – refer to subchapter 506H.	3. A city fire chief is provided with a city-owned vehicle to commute to work related destinations at anytime of the day or night for the convenience of the employer. The fire chief maintains records of personal versus work mileage and reimburses the city for personal usage.	3. No	3. The value of the use of the employer owned vehicle when used for commuting purposes for the convenience of the employer is not reportable for WRS purposes.
<b>Voluntary Employee Benefits Association (VEBA)</b>	Employee Contributions	Employee is required to make the contribution to fund post-employment medical expenses from their earnings and the contributions are made from pre-tax income.	Yes	VEBA is authorized under Section 501(c)(9) of the Internal Revenue Code. It allows for the tax-free pre-funding of post-employment medical expenses. Funds can only be used for post-employment medical expenses. Premium payments, both incoming funds and earnings, and post-employment expenditures are exempt for State, Federal and FICA taxation. Typically a third party administrator is responsible for account activity.

Reportable AND Non-Reportable Earnings Guide				
Compensation Type	Payment Type	Example	WRS Reportable	Comments
<b>Voluntary Employee Benefits Association (VEBA)</b>	Employer Contributions	Employer contributes money to fund post- employment medical expenses for the employee.	No	VEBA is authorized under Section 501(c)(9) of the Internal Revenue Code. It allows for the tax-free pre-funding of post-employment medical expenses. Funds can only be used for post-employment medical expenses. Premium payments, both incoming funds and earnings, and post employment expenditures are exempt for State, Federal and FICA taxation. Typically a third party administrator is responsible for account activity.
<b>Worker's Compensation Credit</b>	No payment	An employee is injured and receives temporary disability benefits through Worker's Compensation.	Yes	The earnings (and associated hours of service) that would have been paid to the employee during the period the employee was receiving temporary disability benefits from Worker's Compensation are reportable for WRS purposes.  NOTE: The amount paid to the employee from Worker's Compensation is not reportable.

**508 Definition of WRS Creditable Service**

Wis. Stat. § 40.02(14), defines WRS creditable current service as the service granted for performance of duties for which a participating employee receives earnings from a participating employer.

**NOTE:** Employers track and report hours to ETF and the reported hours are subsequently converted to creditable service. Hours must be reported accurately since the resulting service credited to the participant account is a key factor in determining benefits.

**509 Annual Earnings Period is Basis for Reporting Hours**

The annual earnings period for all participants (except teachers, educational support personnel, and judges) is the calendar year beginning on January 1 and ending December 31. A "fiscal year" is the annual earnings period for teachers, educational support personnel and judges and is the period beginning July 1 and ending June 30.

Hours and earnings (such as payroll lag or balance-of-contract payments) of a nine- or ten-month contract teacher that are paid after July 1 for services rendered in the preceding school year are deemed to be received on June 30 and must be reported to the preceding school year (refer to Chapters 9 and 10). Service and earnings for a 12-month contract teacher must be reported when paid.

## **510 Computing and Reporting Hours**

Under Wis. Admin. Code § ETF 10.03, each participating employer must determine and report hours worked for each participating employee. The following provisions apply in crediting WRS service for your employees:

- The full-time equivalent of one year of creditable service for a teacher is 1,320 hours. A teacher will be granted a full year of service if at least 1,320 hours are reported. A full year of service for all types of employment other than teaching is 1,904 hours.
- WRS will grant no more than one year of creditable service for any annual earnings period, even if an employee exceeds the number of hours needed during an annual earnings period for a full year of credit. However, it is essential that all hours worked are reported because they are used by ETF when an employee retires to determine whether a normal hours to earnings progression has occurred during their employment history.
- Employees receiving earnings from one or more participating employers in more than one employment category will be granted no more than one year of creditable service for any annual earnings period. Should the total hours from all sources exceed the number required to receive one year of creditable service, then service shall be allocated and credited in the sequence specified in Wis. Admin. Code ETF 10.03 (5), until one year of service is granted.
- Service is based on the number of hours for which earnings are paid. A salaried employee who works additional hours, but is not paid additional earnings should not have additional hours reported.
- Hours for on-call, standby, extracurricular or other service that is incidental to the primary employment must be reported as the quotient derived from dividing the compensation paid for such service by the employee's current basic pay rate. (Wis. Admin. Code § ETF 10.03 (7))
- Fractions of an hour of service can either be rounded to the nearest full hour or reported as the decimal equivalency, with fractions of one-half hour or more rounded up to the next whole number.
- Overtime hours must be reported based on hours worked, not based on hourly pay rate. If overtime hours are paid at 1.5 times the basic hourly rate, report actual hours worked and not hours worked times 1.5.

## 511 Reporting for Eight-Hour Workday

Under Wis. Admin. Code § ETF 10.03, the full-time equivalent of one day of service is eight hours. Employers with an established full-time workday of eight hours must report the actual hours for which earnings are paid for both their full-time and part-time employees.

### Teachers

For teachers and educational support personnel a school day is any day in which school is actually taught and includes legal holidays if they fall within the scheduled school term. Also included as days of service are:

- State Teachers' Conventions
- Days when school is closed by Order of the Health Officer

A teacher who substitutes for another teacher during a free period in the regular workday and is paid additional earnings must have additional hours reported. Service performed is in addition to the number of hours worked by a regular full-time employee in a normal workday.

## 512 Computing and Reporting Hours for Other Than an Eight-Hour Workday

When an employer has an established, written policy for an employee or group of employees, of a full-time workday other than eight hours, whether full-time or part-time, employee hours must be calculated and reported using the formula in Wis. Admin. Code § ETF 10.03(2). The established policy can be contractual or as determined by personnel policy. The formula is as follows:

1. Divide the number of hours for which earnings are paid in the reporting period by the number of hours that would have been worked in that period by a regular full-time employee in the same kind of employment.
2. Multiply the result by 40.
3. Multiply this result by the number of weeks (and fractions of a week) in the reporting period being determined.

$$\left( \frac{\text{Hours Worked}}{\text{Full Time Hours}} \right) \times 40 \times \text{Number of weeks in the reporting period}$$

A. The following examples illustrate how the formula is used to report accurate hours for full-time employees:

**EXAMPLE 1:** A seven-hour workday has been established as full-time employment for a group of employees. Full-time employment for a two-week pay period is 70 hours. An employee works the full 70 hours.

$$\frac{70 \text{ hrs worked}}{70} = 1 \times 40 \times 2 = 80 \text{ hrs to be reported}$$

**EXAMPLE 2:** A 7½-hour workday is full-time and a full-time employee works 75 hours in a two-week pay period.

$$\frac{75 \text{ hrs worked}}{75} = 1 \times 40 \times 2 = 80 \text{ hrs to be reported.}$$

**EXAMPLE 3:** The same employee was paid for ten hours overtime.

$$\frac{85 \text{ hrs worked}}{75} = 1.13 \times 40 \times 2 = 90.4 = 90 \text{ hrs to be reported}$$

**EXAMPLE 4:** The established work week for a full-time firefighter is 56 hours, or 112 hours for a two-week pay period.

$$\frac{112 \text{ hrs worked}}{112} = 1 \times 40 \times 2 = 80 \text{ hrs to be reported}$$

**EXAMPLE 5:** The work schedule for a local police department is six days on followed by 3 days off, eight hours per shift. The schedule results in 88 hours for one two-week pay period and 64 hours for the next two-week pay period, for an average of 76 hours per pay period for a full-time officer.

$$\frac{76 \text{ hrs worked}}{76} = 1 \times 40 \times 2 = 80 \text{ hrs to be reported}$$

**EXAMPLE 6:** A 7½-hour workday is full-time for a teacher (75 hours in a two-week period). A teacher who substitutes for another teacher during a free period in the regular workday and is paid additional earnings must have additional hours reported. During a pay period one teacher was paid for substituting for another for an additional two hours.

$$\frac{77 \text{ hrs worked}}{75} = 1.03 \times 40 \times 2 = 82.13 = 82 \text{ hrs to be reported}$$

**B. The following examples illustrate how the formula is used to report accurate hours for full-time employees who work part-time employees:**

**EXAMPLE 1:** A seven-hour workday has been established as full-time employment for a group of employees. Full-time employment for a two-week pay period is 70 hours. A part-time employee works 3.5 hours per day.

$$\frac{35 \text{ hrs worked}}{70} = .50 \times 40 \times 2 = 40 \text{ hrs to be reported}$$

**EXAMPLE 2:** A 7½-hour workday is full-time employment (75 hours in a two-week period). An employee works 37.5 hours in a two-week period.

$$\frac{37.5 \text{ hrs worked}}{75} = .5 \times 40 \times 2 = 40 \text{ hrs to be reported}$$

**EXAMPLE 3:** A 7½-hour workday is full-time employment (75 hours in a two-week period). An employee ordinarily works 37 hours in a two-week period, but during one period works four hours extra and is paid for the extra service. (37.5 plus 4 = 41.5)

$$\frac{41.5 \text{ hrs worked}}{75} = .55 \times 40 \times 2 = 44 \text{ hrs to be reported}$$

**EXAMPLE 4:** A 7½-hour workday is full-time for a teacher (75 hours in a two-week period). A half-time teacher who substitutes for another teacher during a free period in the regular workday and is paid additional earnings must have additional hours reported. During one pay period the half-time teacher was paid for substituting for an additional two hours.

$$\frac{39.5 \text{ hrs worked}}{75} = .53 \times 40 \times 2 = 42 \text{ hrs to be reported}$$

### 513 Earnings and Hours for On-call, Standby, Extracurricular and Other Non-Standard Hours

Participating employee earnings for on-call, standby, extracurricular or other service, which is incidental to the primary employment, **must be reported** and contributions paid on those earnings **on the same basis as for any other earnings**. (Wis. Admin. Code § ETF 10.03 (7) (a)).

The number of hours to report for the "incidental" service is determined by dividing the compensation received for the service by the employee's current basic pay rate. The "current basic pay rate" as defined in Wis. Admin. Code § ETF 10.01 (1m) (a), is the hourly rate or its equivalent, excluding any overtime or supplementary compensation, at which the employee is paid.

**EXAMPLE 1:** A teacher is paid \$1,000 extra to serve as advisor for the school yearbook. The teacher's current basic pay rate is equivalent to \$25 per hour. Report 40 additional hours with the teacher's earnings (1000 ÷ 25 = 40).

**EXAMPLE 2:** An employee is asked to be on call for two days on a holiday weekend. The employee is paid \$80 extra to be on call. His "current basic pay rate" is \$20 an hour. Divide the \$80

compensation received for the on call duty by the pay rate of \$20 an hour. The resulting 4 hours must be included in the total hours reported with the employee's earnings.

**EXAMPLE 3:** A teacher with a basic pay rate of \$30.00 also coaches girls softball for an additional \$1,500 per season. The district has properly applied the rule for determining and reporting hours for extracurricular work. In this example, the district reported an additional 50 hours of service along with the \$1,500 in coach's salary.

The teacher terminated employment with the district following the school year, took no WRS benefit, and returned the following season to coach. Since the teacher returned within 12 months without having taken a WRS benefit, the coaching is WRS eligible and the earnings and hours must be reported to WRS. Unless a new hourly rate of pay is contracted for the coaching, the earnings and hours must be reported on the same basis as before the termination.

**EXAMPLE 4:** A full-time public works employee also referees games for the city recreation department. As a referee, the employee is paid by the number of games refereed rather the number of hours worked. For this type of employment situation the employer calculates referee hours by dividing total referee compensation by the employee's current basic pay rate as a public works employee. The number of games refereed is irrelevant for the purpose of reporting hours to ETF.

## 514 Creditable Service for Part-Time Local Elected Officials

Wis. Admin. Code § ETF 10.03(6), provides guidance in determining the number of hours to report for part-time local elected officials eligible for participation in the WRS. The rule is NOT intended for use in determining WRS eligibility. The rule's use is intended for determining hours to report to WRS and should be applied based upon the type of elected position held, as follows:

➤ **Ministerial Positions (officials other than members of the governing body).**

Regular Work Schedule – Report the number of hours actually worked.

No Regular Work Schedule – Report no more than the hours obtained by dividing the official's yearly salary by **twice the non-farm federal minimum wage** for the appropriate year.

The non-farm federal minimum wage is currently \$5.15 an hour. The following example shows how to apply the above rule:

$$\frac{\text{Yearly Salary}}{\text{Twice Minimum Wage}} = \text{Hours of creditable service}$$

$$\frac{\$5,500}{\$10.30} = 533.98 \text{ rounded to } 534 \text{ hours of creditable service}$$

The non-farm federal minimum wage from 1976 to 1997 and beyond is as follows:

1976-1977	2.30
1978	2.65
1979	2.90
1980	3.10
1981- March 1990	3.35
April 1990 - April 1991	3.80
May 1991 - Sept. 1996	4.25
Oct. 1996 - Aug. 1997	4.75
Sept. 1997 – present	5.15

➤ **Members of a Governing Body or other Policy-Making Group.**

Report the number of hours in actual attendance at board and committee meetings and a reasonable number of hours for time spent in preparation for the meetings. In no case can the number of hours determined to have been spent in preparation time exceed twice the number of hours actually spent at the meeting.

It is the responsibility of the employer to maintain the necessary documentation to justify the reasonableness of the basis used in reporting hours for local elected officials.

**515 Creditable Service for County Agents**

Most of the counties in Wisconsin, excluding Menomonee and Milwaukee, have established and maintain an educational program in cooperation with the University of Wisconsin. Employees of this program are considered employees of both the county and the University. It was determined that the employees are performing teaching service and should be covered for WRS.

Hours reported for county agents must be based on the percentage of total earnings that the county or the University pays. Neither the county nor the University should report more hours than those related to their percentage of the total earnings. The amount of hours reported by either party should not exceed 1,320 hours.

Example of reporting county agent:

Agent has 2,080 hours of service with \$50,000 annual income.

University reports 60%: 1,248 hrs.    \$30,000 earnings

County reports 40%:    832 hrs.    20,000 earnings  
   2,080 hrs.    \$50,000 earnings