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CORRESPONDENCE MEMORANDUM

DATE: September 4, 2008
TO: Wisconsin Retirement Board
Teachers Retirement Board
FROM: Michelle Baxter, Director
Employer Communication and Reporting Bureau
SUBJECT: Reportable Wisconsin Retirement System (WRS) Earnings

This memo is for the Board's information only. No action is required.

Interest was expressed at the June 26, 2008, board meeting in learning more about reportable earnings for WRS purposes. Due to the variety of compensation-type payments that are reportable for WRS purposes, the attached document is being provided. The document is an excerpt from the *Wisconsin Retirement System Administration Manual*. The manual is also available on the ETF Internet site at <http://etf.wi.gov/employers.htm>

Staff will be available at the Board meeting to address any questions you have regarding this information.

Attachments

Reviewed and approved by John Vincent, Administrator, Division of Trust
Finance & Employer Services.

Signature _____

Date _____

Board	Mtg Date	Item #
WR	09/18/08	3
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Reportable and Non-Reportable Earnings Guide

Reportable AND Non-Reportable Earnings Guide				
Compensation Type	Payment Type	Example	WRS Reportable	Comments
Advance	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.
Allowances (See Clothing, Expense, Lodging And Vehicle)				
Attorney Fees	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.
Back Pay Awards	Cash payment	Payment resulting from a compromise settlement, court order, etc. which represents back wages.	1. Yes 2. No	1. Back pay awards are reportable for WRS purposes if the settlement agreement meets the requirements in Wis. Admin. Code ETF 20.12. 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
Cafeteria Plan (IRC Section 125) Reductions	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.
Cash	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.

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Clothing Allowance	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.
Compensatory Time	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.
Contributions Paid by Employer	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.
Contract Buy Outs	Cash payment		No	Wis. Stat. § 40.02 (22) (b) 8.

Reportable Earnings

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Compensation Type	Payment Type	Example	WRS Reportable	Comments
Damages Payment	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.
Deferred Compensation	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.
Employee Reimbursement Accounts	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.
Expense Allowance	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.
Extra Curricular Activity Pay	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.
Fringe Benefit	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 at the employee's option are not reportable for WRS purposes.

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Health Savings Account (HSA)	1. Employee salary reduction	1. Employee instructs employer to take a pre-tax deduction from salary for deposit into a HSA.	1. Yes	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.
	2. Employer Contribution	2. Employer makes a monthly contribution to an employee's HSA in return for employee's election of a higher deductible health insurance option.	2. No	
		3. Employer makes a monthly contribution to their employees' HSA accounts	3. No	
Independent Contractor Payments Note: Must meet federal Independent Contractor rules. See IRS publication 1779.	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.
Insurance Benefit Payments	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.
Interest Payments	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.
IRA Payment	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 at the employee's option are not reportable for WRS purposes.
Joint Instrumentality Earnings	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.
Jury Duty Compensation	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.

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Length of Service Payment	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.
Lodging Advancement or Reimbursement	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.
Leave of Absence Compensation	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.
Meals Advancement or Reimbursement	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.

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Merit Pay	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.
Moving Expenses	Cash payment	An employee receives payment to cover moving expenses.	No	Payments made to relocate a new employee are not WRS reportable.
On-call Pay	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.
Overtime Pay	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.
Penalty Payments	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.
Reimbursement (see Clothing, Lodging and Vehicle)				
Sabbatical (see Leave of Absence Compensation)				
Severance Pay	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.

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Sick Leave Pay	Cash payment	1. All employees of an employer receive an annual pay out for unused sick leave.	1. Yes	1. 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.
		2. 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.	2. Yes	2. 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.
		3. 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.	3. No	3. 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.
Standby (See On Call)				
State Elected Official Salary Increase	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.
Tax Deferral (See Deferred Compensation)				
Tax Shelter (See Deferred Compensation)				
Training Pay	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.

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Vacation Pay	Cash payment	1. All employees of an employer receive an annual pay out for unused vacation.	1. Yes	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.
		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.	2. Yes	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.
		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.	3. Yes	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.
		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.	4. No	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.

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Vehicle Advancement, Allowance and Reimbursement	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. Unused amounts available to the employee for personal use are WRS reportable. Refer to 501H.
	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.
Voluntary Employee Benefits Association (VEBA)	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.

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Compensation Type	Payment Type	Example	WRS Reportable	Comments
Voluntary Employee Benefits Association (VEBA)	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.
Worker's Compensation Credit	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.