

# Chapter 8: Excess Costs

## Employer contribution responsibility

The required employer contributions must be paid by the employer and **cannot** be bargained or negotiated as a member contribution. These payments **cannot** be passed on to or be paid by a TRS member.

## Types of employer excess costs

### Employer contributions due for sick leave days granted in addition to the normal annual allotment

Public Act 94-0004, signed into law on June 1, 2005, requires employer contributions for retiring members who in their final four years prior to retirement, receive sick leave days in excess of the normal annual allotment that are used for service credit.

Refer to the following pages:

- [Cost explanation – pg. 2](#)
- [Examples - pg. 2](#)
- [Billing – pg. 15](#)

### Employer contributions due for salary increases in excess of 6 percent

Public Act 94-0004, signed into law on June 1, 2005, requires employer contributions for salary increases in excess of 6 percent. When a member retires, the employer is required to pay TRS contributions equal to the actuarial value of a pension benefit that results from any salary increase over 6 percent that is used in a retiring member's final average salary calculation.

Refer to the following pages:

- [Cost explanation – pg. 4](#)
- [Permanent and temporary exemptions – pgs. 5-10](#)
- [Examples – pgs. 10-13](#)
- [Billing – pg. 15](#)

### Employer contributions for salary in excess of the governor's statutory salary

Effective July 1, 2017, Public Act 100-0023 requires employers to pay a contribution on any portion of a member's salary that is greater than the governor's statutory salary.

Refer to the following pages:

[Cost explanation – pg. 13](#)

[Examples – pgs. 13-14](#)

[Billing – pg. 15](#)



## Employer contribution for excess sick leave

Members may receive up to two additional years of service credit at retirement for unused, uncompensated sick leave. If an employer grants sick leave days in excess of the teachers' normal annual sick leave allotment during a member's last four school years prior to retirement and the granted days increase the member's service credit, the employer may be subject to an employer contribution.

### Definition of normal annual sick leave allotment

Any sick leave granted in accordance with an employer's retirement incentive program cannot be considered as part of the normal annual sick leave allotment.

Normal annual allotment is defined as the amount of annual sick leave granted to members under the collective bargaining agreement (CBA), employment policies or contracts including business, personal days or other nonvacation leave that can be used as sick days.

Some districts offer a tiered or graduated system of sick leave allotments based on years of experience and/or accumulated sick leave balances or based on the length of employment. TRS recognizes whatever tier the member qualifies for under the terms of the CBA as that person's normal annual allotment. As long as the tiers are not based on the member's age, retirement eligibility or retirement notification, tiered normal annual allotments are not viewed as "granting."

### Tiered sick leave days examples

#### Example 1

- 0 – 10 years of experience receive 10 sick leave days,
- 11 – 20 years of experience receive 15 sick leave days,
- 21 – 30 years of experience receive 20 sick leave days, and
- over 30 years of experience receive 25 sick leave days.

#### Example 2

Those who have not accumulated 75 days of sick leave will receive 15 days per year. After 75 days have been accumulated, they will receive 12 days per year.

#### Example 3

Those who work:

- nine months per year receive 12 sick leave days,
- 10 months per year receive 14 sick leave days,
- 11 months per year receive 16 sick leave days, and
- 12 months per year receive 18 sick leave days.

#### Example 4

Teachers are provided with a normal annual allotment of 15 sick leave days. Teachers who have been employed at the district for five to nine years receive an additional sick leave day, teachers who have been employed at the district 10 to 14 years receive two additional sick leave days and teachers who have been employed at the district for 15 or more years receive three additional sick leave days.



## **Employer contribution is determined when a member retires**

When an active member initiates the retirement process, TRS provides a Supplementary Report and a Sick Leave Certification form to the employer for completion. On the Supplementary Report, the employer reports the number of unused, uncompensated sick leave days the member had available for use at termination. This information is used to determine sick leave service credit. On the Sick Leave Certification form, the employer reports the normal annual allotment and the number of days added to the member's sick leave record during specified school years. The Sick Leave Certification form is used to determine whether excess sick leave days were granted during the member's last four years prior to retirement. To be reportable for service credit, granted days must be added to the member's record far enough in advance of retirement to be available for use in accordance with the 3-step formula. (See Chapter 6, Service Credit.)

## **Calculating the employer contribution**

To calculate the employer contribution for excess sick leave, the member's highest salary rate reported by the granting employer during the sick leave review period is multiplied by the total normal cost rate in the member's last year of service. The total normal cost rate is subject to change annually.

The total normal cost rates follow:

- 17.6 percent in fiscal years 2005-06 and 2006-07,
- 17.62 percent in 2007-08,
- 18.67 percent in 2008-09,
- 18.55 percent in 2009-10,
- 18.03 percent in 2010-11,
- 17.83 percent in 2011-12,
- 17.63 percent in 2012-13,
- 17.29 percent in 2013-14,
- 17.42 percent in 2014-15,
- 19.19 percent in 2015-16,
- 17.68 percent in 2016-17,
- 19.10 percent in 2017-18,
- 18.85 percent in 2018-19,
- 19.66 percent in 2019-20,
- 19.41 percent in 2020-21,
- 19.31 percent in 2021-22,
- 19.49 percent in 2022-23,
- 19.60 percent in 2023-24,
- 19.34 percent in 2024-25 and 2025-26.



The result is then multiplied by the portion of sick leave service credit the member received for sick days granted in excess of the normal annual sick leave allotment.

**Example:** At the beginning of the 2021-22 school year, a member was granted 85 days of sick leave in excess of the normal annual allotment. The 85 days were granted sufficiently in advance of the member's retirement to be available for use with the 3-step formula. The granted days were reported to TRS for service credit when the member retired at the end of the 2024-25 school year.

|                   |                                                                  |
|-------------------|------------------------------------------------------------------|
| \$50,000          | Highest salary rate reported during the sick leave review period |
| x 0.1934          | Total normal cost rate in member's last year of service, 2024-25 |
| \$9,670           |                                                                  |
| x 0.5             | Service credit from granted days (85/170)                        |
| <u>\$4,835.00</u> | Employer contribution due                                        |

An Excess Sick Leave Calculator is available under the Employer area of the TRS website: <https://www.trsil.org/employers/retirement-issues/sick-leave-calculator>. Employers may use the calculator to estimate excess sick leave contribution costs.

### Other sick leave considerations

Employer contributions for excess sick leave will not be required if:

- the member does not receive service credit for granted days,
- sick leave days were granted prior to the member's last four years, or
- the member was inactive for four or more school years preceding retirement.

If more than one employer grants sick leave in excess of the normal annual allotment during the member's last four years prior to retirement, service credit will be recognized in granting date order, beginning with the earliest and ending with the latest. Any granted days that earn service credit may be subject to employer contributions. Granted sick leave in excess of 340 days will not earn service credit and therefore will not be subject to employer contributions.

## Employer contribution for salary increases in excess of 6 percent

When a member retires, the employer may be required to pay TRS a contribution for any salary increase over 6 percent that is used in the final average salary calculation. For Tier I members, the average salary is the average of the four highest consecutive annual salary rates within the last 10 years of creditable service. Typically, the member's last four years are used to calculate final average salary. For Tier II members, the average salary is the average of the eight highest consecutive annual salary rates within the last 10 years of creditable service.

For a member retiring on or after June 1, 2021 and for whom the 2020-21 school year is used in the final average salary calculation, the final average salary will be based on the four highest years within the last 10 years of creditable service for Tier 1 members and the eight highest salaries within the last 10 years of creditable service for Tier 2 members. Public Act 102-0016 removes the requirement that the final average salary calculation use the four for Tier 1 or eight for Tier 2 "consecutive" highest salaries. This change only applies to members who are retiring after June 1, 2021 and the 2020-21 school year is used in their final average salary calculation.



**Please be aware that this change could impact employer contributions due for salary increases in excess of 6 percent.**

### **Calculating the employer contribution**

To calculate the employer contribution for excess salary increases, TRS first calculates the member's actual retirement benefit under current law and rules based upon the member's age at retirement, service credit, and average salary. If any of the salaries used to calculate the member's final average salary increased by more than 6 percent, TRS also calculates what the annuity would have been if salaries had been capped at 6 percent increases. The difference between the two benefit amounts is then multiplied by an actuarial factor. The result is the required employer contribution.

An Excess Salary Increase Calculator is available under the Employer area of the TRS website: <https://www.trsil.org/employers/retirement-issues/salary-increase-calculator>. Employers may use the calculator to estimate contribution costs for salary increases greater than 6 percent.

Actuarial factors represent the present value of future benefits the member will receive as a result of salary increases greater than 6 percent. Actuarial factors are based upon actuarial assumptions for life expectancy and TRS's investment return (currently 7.0 percent). The actuarial factor used in each employer cost calculation is determined by the member's exact age at retirement.

The employer contribution is calculated using year over year salaries paid by the same employer (if used in the final average salary). The reported annual salary rate amount is used in the calculation of the employer contribution for excess salary increases as long as the member worked at least 170 days during that school year, even if the member incurred docks and earned less than the full rate. Please refer to pages 9-12 for examples of the calculation of the employer contribution for salary increases in excess of 6 percent.

When there is more than one employer in the member's final average salary period, each employer's contribution is based on salary increases in excess of 6 percent granted by that individual employer. An employer would not be subject to contributions on salary increases provided by another employer or extra-duty earnings paid by another employer.

### **When a contribution is not required**

Only salaries that are used in the member's final average salary calculation are subject to the employer contribution. Salary increases in years outside of the years used in the final average salary calculation will not result in an employer contribution. If the member receives an actuarial benefit rather than a formula benefit, the employer is not subject to contributions for excess salary increases.

Employer contributions will not be due in any years in which the member's creditable earnings are less than 50 percent of the preceding year's mean salary for downstate teachers as determined by the survey of school district salaries provided in Section 2-3.103 of the School Code.

### **Contribution exemptions due to Public Act 94-1057**

Public Act 94-1057, which was signed into law on July 31, 2006, provides employer contribution exemptions for salary increases over 6 percent. Some of the exemptions are permanent while



others are available for a limited-time period. The exemptions provided in PA 94-1057 apply only in specified circumstances. The permanent exemptions apply to members retiring on or after June 1, 2005. The temporary exemptions apply to members retiring on or after July 31, 2006.

## **Permanent exemptions for retirements that occur on or after June 1, 2005**

The following exemptions are still in effect regardless of Public Act 100-0587.

### **Consolidations/annexations**

PA 94-0004 requires employer contributions for a member's excess salary increases that were received from the same employer. If a member changes employers, PA 94-0004 does not require employer contributions for a salary increase over 6 percent that was earned during the first year with the new employer. PA 94-1057 clarifies that a consolidation or annexation constitutes a change in employer for the purpose of calculating employer contributions for excess salary increases. Salary increases greater than 6 percent that were awarded by the new employer during the year of consolidation or annexation are excluded from the calculation of employer contributions for excess salary increases. This exemption applies only for members whose employer number has changed. When an annexation has occurred, the exemption does not apply to those teachers who continue to be reported under the same employer number.

**Example of consolidation:** Beginning with the 2024-25 school year, District 10, District 20 and District 30 consolidate to form a new school district, District 100. District 100 is exempt from employer contributions for 2024-25 excess salary increases for members who were employed by District 10, District 20 and District 30 during the 2023-24 school year.

**Example of annexation:** Beginning with the 2024-25 school year, District 50 is eliminated through annexation to an existing school district, District 200. Under PA 94-1057, District 200 is exempt from employer contributions for 2024-25 excess salary increases for members who were employed by District 50 during the 2023-24 school year. However, District 200 is not exempt for 2024-25 salary increases for members who were employed by District 200 during the 2023-24 school year.

### **Full-time equivalency**

For part-time and substitute teachers, TRS will use full-time equivalent rates to determine if salary increases exceeded 6 percent during the final average salary years. Employers should continue to follow the current guidelines for reporting each member's full annual rate and earnings to TRS. An employer contribution for excess salary increases will only be required if the comparison of full-time equivalent rates reflects an increase over 6 percent.

**Example:** Teacher A works part-time (three days per week) during the 2023-24 school year and earns \$36,000. Teacher A works full-time during the 2024-25 school year and earns \$62,000. To determine if an employer contribution is required, TRS compares a full-time equivalent salary of \$60,000 for the 2023-24 school year to the actual 2024-25 full-time salary of \$62,000. In this example, the increase from the full-time equivalent salary of \$60,000 to \$62,000 is less than 6 percent. Therefore, no employer contribution is required even though Teacher A's reportable annual salary rate and creditable earnings increased from \$36,000 to \$62,000.



## Temporary salary exemptions

For a limited time, Public Acts 94-1057, 102-0016 and 102-0525 allow employers to request exemption from employer contributions for excess salary increases on certain types of compensation.

### Public Act 94-1057

Under Public Act 94-1057, exemptions apply to members retiring on or after July 31, 2006. An employer may be exempt from employer contributions on only the portion of a member's salary increase that is due to one of the reasons listed below. The following exemptions apply to salary increases earned for the period of June 1, 2005 through June 30, 2011. If a contract or CBA is entered into between June 1, 2005 and June 30, 2011, and expires on or after July 1, 2011, salary increases due to the reasons listed below may be eligible for an extended exemption through the earlier of either the contract/CBA ending date or June 30, 2014.

- **Overload work performed by a full-load (100 percent time) teacher.** Overload work (class overload) is defined as classroom instruction in excess of the standard number of teaching class periods per day required by the employer of full-load teachers. Qualifying overload work will typically be performed by a classroom teacher for a complete semester or school term.

To be eligible for exemption from employer contributions, the salary increase for overload work must be proportional to the teacher's base annual salary rate. Only overload earnings that are equal to or less than a prorated portion of the teacher's base annual salary rate for classroom instruction will be eligible for the exemption.

**Example:** Full-load teachers at District 300 are required to teach six class periods per day and have one daily preparation period. Due to an increase in students, an additional class is added. Teacher B gives up his preparation period and teaches seven classes per day. He receives an additional 1/6 of his base annual salary rate for teaching the additional class for the entire school term.

If the resulting salary increase is used in Teacher B's final average salary calculation, PA 94-1057 allows District 300 to request that TRS recalculate the employer contribution for excess salary increases, excluding the portion of Teacher B's salary increase attributable to the class overload.

The overload exemption does not apply to payments for:

- intermittent periods of substitution/class coverage;
- tutoring;
- homebound teaching;
- hourly work;
- extra-duty assignments such as coaching, sponsorship, or curriculum development;
- increased work hours for full-time administrators;
- increase/excess number of students in the classroom; or
- extending the length of the school day or school term.



- **Summer school teaching performed by a full-load (100 percent time) teacher.** To qualify for this exemption,
  - the member must be a full-load teacher during the regular school term,
  - the salary increase must be earned for summer classroom instruction, and
  - the summer rate of pay cannot exceed the member's base rate of pay for classroom instruction during the regular school term.

The exemption does not apply to

- summer duties that do not require teacher licensure, such as attendance at workshops or curriculum writing;
  - tutoring or substitute teaching during the summer school session;
  - summer school administration;
  - members who work less than 100 percent time during the regular school term; or
  - members who only teach summer school.
- **Salary increases resulting from a promotion for which the member is required to hold a certificate or supervisory endorsement that is different than the certificate or supervisory endorsement required for the member's previous position.** To be eligible for this exemption, the member must be required by the Illinois School Code to hold a different teaching certificate or supervisory endorsement in the new position than was required for the member's previous position.

The Illinois State Board of Education, not TRS or the employer, determines the teaching certificate or supervisory endorsement required for a particular position. Typically, a promotion from one administrative position to another administrative position will not qualify for exemption because the same certification type is required.

To be eligible for the exemption,

- the promotion must be to a pre-existing position that has been filled by a teacher for at least one school year; and
- the salary must be no greater than the lesser of either
  - the average salary paid for similar positions at the district requiring the same certification, or
  - the amount stipulated in the CBA for a similar position requiring the same certification.

The employer is exempt from the employer contributions due to salary increases as a result of promotion only in the first school year the member holds the new position.

- **Payments made to the member from the State of Illinois or the Illinois State Board of Education over which the employer does not have discretion.** Examples of payments over which the employer does not have discretion include the stipend for becoming a National Board Certified teacher (also referred to as Master Teacher Stipend) and payments for



workshops presented or attended at the Regional Office of Education (ROE) for which the ROE requires the school district to be the common paymaster. Other payments that qualify for exemption include stipends paid to principals for serving as mentors in the Illinois New Principal Mentoring Program, stipends paid to mentoring teachers for participating in the Illinois Teacher Excellence Program, and stipends paid in accordance with the Illinois Teaching Excellence Program and the Salary Incentive Program for hard-to-staff schools.

Some TRS-covered employers agree to pay additional stipends (over and above the amount provided by ISBE) from district funds to teachers for attaining a Master Certificate. Such discretionary stipends are not eligible under PA 94-1057 for exemption from TRS employer contributions for salary increases in excess of 6 percent.

- **Salary increases over 6 percent paid to members who are 10 or more years from retirement eligibility.** This exemption will be automatically applied when TRS processes the member's claim.

### Public Act 102-0016

- **Temporary exemptions include:**
  - **class overload.** Employers may be eligible for an exemption for salary increases due to an overload performed in a school year subsequent to a school year in which the employer was unable to offer or allow overload work due to an emergency declaration limiting such activities. The overload exemption may be applicable if the overload was performed in the 2020-21 and/or 2021-22 school years and those years are used in the calculation of a retiree's final average salary. Overload work (class overload) is defined as classroom instruction in excess of the standard number of teaching class periods per day. Qualifying overload work will typically be performed by a classroom teacher for a complete semester or school term. Further details included in [Employer Bulletin FY22-08](#).
  - **stipend work.** Employers may be eligible for an exemption for salary increases due to stipend work performed in a school year subsequent to a school year in which the employer was unable to offer or allow stipend work due to an emergency declaration limiting such activities. The stipend work exemption would be applicable if the stipend work was performed in the 2020-21 and/or 2021-22 school years and those years are used in the calculation of a retiree's final average salary calculation. Stipend work includes contractual extra duties, such as coaching, class sponsorships, etc., and timesheet extra duties, such as internal substitution, hallway supervision, lunchroom supervision, tutoring, etc. See [Employer Bulletin FY22-08](#) for further instruction.
  - **increased instructional time.** Increased hours or days worked during the **2020-21 school year only**. More details included in [Employer Bulletin FY22-08](#).

### Public Act 102-0525

- **summer school.** Public Act 102-0525 allows employers to request an exemption from employer contributions for excess salary increases for teaching summer school. The exemption applies to salary increases resulting from teaching summer school on or after May 1, 2021 and before September 15, 2022. See [Employer Bulletin FY22-12](#) for more specifics.



## Public Act 101-0443

- minimum salary.** The System shall exclude salary increases necessary to bring a school board in compliance with Public Act 101-0443. Public Act 101-0443 states, “In fixing the salaries of teachers, a school board shall pay those who serve on a full-time basis a rate not less than (i) \$32,076 for the 2020-2021 school year, (ii) \$34,576 for the 2021-2022 school year, (iii) \$37,076 for the 2022-2023 school year, (iv) \$40,000 for the 2023-2024 school year, (v) \$41,188 for the 2024-25 school year and (vi) \$42,411 for the 2025-26 school year. The minimum salary rate for each school year thereafter, subject to review by the General Assembly, shall equal the minimum salary rate for the previous school year increased by a percentage equal to the percentage increase, if any, in the Consumer Price Index For All Urban Consumers for all items published by the United States Department of Labor for the previous school year.” This exemption only applies to teachers whose salaries were increased to the minimum salaries required to be paid under Public Act 101-0443.

### Example 1: Calculation of Employer Contribution for Salary Increases in Excess of 6 Percent for a Partial-Year Teacher

| Year | Number of Days in the Employment Agreement | Number of Days Paid | Annual Salary Rate | Creditable Earnings |
|------|--------------------------------------------|---------------------|--------------------|---------------------|
| 1    | 180                                        | 180                 | \$50,000.00        | \$50,000.00         |
| 2    | 180                                        | 180                 | \$53,000.00        | \$53,000.00         |
| 3    | 180                                        | 180                 | \$54,000.00        | \$54,000.00         |
| 4    | 180                                        | 180                 | \$57,000.00        | \$57,000.00         |
| 5    | 180                                        | 60                  | \$63,000.00        | \$21,000.00         |

**Step 1:** Calculate the member’s retirement benefit under current law and rules based upon the member’s exact age at retirement, service credit, and salaries.

When any of the years used in the final average salary calculation is a partial year, actual earnings and earnings credit are used in the final average salary calculation. Earnings credit is calculated by dividing the number of days paid by the number of days in the employment agreement.

| Year                        | Service Credit | Earnings Credit | Annual Salary Rate | Creditable Earnings | Salary Used in Calculation of Final Average Salary |
|-----------------------------|----------------|-----------------|--------------------|---------------------|----------------------------------------------------|
| 1                           | 1.000          | 1.000           | \$50,000.00        | \$50,000.00         | \$33,350.00*                                       |
| 2                           | 1.000          | 1.000           | \$53,000.00        | \$53,000.00         | \$53,000.00                                        |
| 3                           | 1.000          | 1.000           | \$54,000.00        | \$54,000.00         | \$54,000.00                                        |
| 4                           | 1.000          | 1.000           | \$57,000.00        | \$57,000.00         | \$57,000.00                                        |
| 5                           | 0.353          | 0.333           | \$63,000.00        | \$21,000.00         | + \$21,000.00                                      |
|                             |                |                 |                    |                     | = \$218,350.00                                     |
|                             |                |                 |                    |                     | ÷ 4                                                |
| <b>Final average salary</b> |                |                 |                    |                     | <b>\$54,587.50</b>                                 |

\*  $1 - 0.333 = 0.667$ ,  $\$50,000 \times 0.667 = \$33,350.00$



Multiply the average salary times the years of service factor. Assume a 75 percent service factor for this example.

**Salary Used in the Calculation of the Annuity  
Under Current Law and Rules**

|                       |                           |
|-----------------------|---------------------------|
| Final average salary  | \$54,587.50               |
| Service credit factor | x 0.75                    |
| <b>Annual benefit</b> | <b><u>\$40,940.63</u></b> |

**Step 2:** Calculate the member's retirement benefit based upon the member's exact age at retirement and service credit, but with the member's salaries, with the same employer, subject to the 6 percent earnings increase limitation.

| Year                        | Service Credit | Earnings Credit | Annual Salary Rate | Creditable Earnings | Salary Subject to 6% earnings increase limitation |
|-----------------------------|----------------|-----------------|--------------------|---------------------|---------------------------------------------------|
| 1                           | 1.000          | 1.000           | \$50,000.00        | \$50,000.00         | \$33,350.00*                                      |
| 2                           | 1.000          | 1.000           | \$53,000.00        | \$53,000.00         | \$53,000.00                                       |
| 3                           | 1.000          | 1.000           | \$54,000.00        | \$54,000.00         | \$54,000.00                                       |
| 4                           | 1.000          | 1.000           | \$57,000.00        | \$57,000.00         | \$57,000.00                                       |
| 5                           | 0.353          | 0.333           | \$63,000.00        | \$21,000.00         | + \$20,119.86**                                   |
|                             |                |                 |                    |                     | = \$217,469.86                                    |
|                             |                |                 |                    |                     | ÷ 4                                               |
| <b>Final average salary</b> |                |                 |                    |                     | <b><u>\$54,367.47</u></b>                         |

\*\* Salary subject to 6 percent:  $\$57,000.00 \times 1.06 = \$60,420.00 \times 0.333 = \$20,119.86$

Multiply the average salary times the years of service factor. Assume a 75 percent service factor for this example.

**Annual Benefit Amount  
if Salary Increases Had  
Not Exceeded 6%**

|                       |                           |
|-----------------------|---------------------------|
| Final average salary  | \$54,367.47               |
| Service credit factor | x 0.75                    |
| <b>Annual benefit</b> | <b><u>\$40,775.60</u></b> |



**Step 3:** Calculate the employer contribution by multiplying the difference between the member's retirement benefit and the retirement benefit subject to the 6 percent earnings increase limitation by an actuarial factor based upon the member's age at retirement.

For this example assume an actuarial factor of 13.459.

|                              |                          |
|------------------------------|--------------------------|
| Benefit difference           | \$165.03*                |
| Actuarial factor             | x 13.459                 |
| <b>Employer contribution</b> | <b><u>\$2,221.14</u></b> |

\* \$40,940.63 actual benefit less \$40,775.60 benefit subject to the 6 percent earnings increase limitation

## Example 2: Calculation of Employer Contribution for Salary Increases in Excess of 6 Percent for a Teacher Who Worked 170 or More Days

| Year | Number of Days in the Employment Agreement | Number of Days Paid | Annual Salary Rate | Creditable Earnings |
|------|--------------------------------------------|---------------------|--------------------|---------------------|
| 1    | 180                                        | 180                 | \$50,000.00        | \$50,000.00         |
| 2    | 180                                        | 180                 | \$53,000.00        | \$53,000.00         |
| 3    | 180                                        | 170                 | \$54,000.00        | \$51,000.00         |
| 4    | 180                                        | 180                 | \$57,000.00        | \$57,000.00         |
| 5    | 180                                        | 172                 | \$63,000.00        | \$60,200.00         |

**Step 1:** Calculate the member's retirement benefit under current law and rules based upon the member's exact age at retirement, service credit, and salaries. If a member receives 1.000 service credit for a year, annual salary rate is used in the average salary calculation, not creditable earnings.

| Year | Final Average Salary |
|------|----------------------|
| 2    | \$53,000.00          |
| 3    | \$54,000.00          |
| 4    | \$57,000.00          |
| 5    | + \$63,000.00        |

= \$227,000.00

÷ 4

Final average salary \$56,750.00

Service credit factor x 0.75 Assume a 75 percent service factor for this example.

**Annual benefit** **\$42,562.50**

**Step 2:** Calculate the member's retirement benefit based upon the member's exact age at retirement and service credit, but with the member's salaries, with the same employer, subject to the 6 percent earnings increase limitation.



| Year | Annual Benefit Amount<br>if Salary Increases Had<br>Not Exceeded 6% |
|------|---------------------------------------------------------------------|
| 2    | \$53,000.00                                                         |
| 3    | \$54,000.00                                                         |
| 4    | \$57,000.00                                                         |
| 5    | + \$60,420.00                                                       |

= \$224,420.00  
Salary subject to the 6 percent earnings increase limitation: \$57,000 x 1.06

|                       |   |                           |
|-----------------------|---|---------------------------|
|                       | ÷ | 4                         |
| Final average salary  |   | \$56,105.00               |
| Service credit factor | x | 0.75                      |
| <b>Annual benefit</b> |   | <b><u>\$42,078.75</u></b> |

**Step 3:** Calculate the employer contribution by multiplying the difference between the member's retirement benefit and the retirement benefit subject to the 6 percent earnings increase limitation by an actuarial factor based upon the member's age at retirement.

For this example assume an actuarial factor of 13.459.

|                              |                          |
|------------------------------|--------------------------|
| Benefit difference           | \$483.75*                |
| Actuarial factor             | x 13.459                 |
| <b>Employer contribution</b> | <b><u>\$6,510.79</u></b> |

\* \$42,562.50 actual benefit less \$42,078.75 benefit subject to the 6 percent earnings increase limitation.

## Employer contribution for salary in excess of governor's statutory salary

An employer contribution is due on any portion of a member's salary that is greater than the governor's statutory salary. The governor's statutory salary is subject to change annually.

| Years   | Governor's Salary |
|---------|-------------------|
| 2017-18 | \$177,412.00      |
| 2018-19 | \$177,500.00      |
| 2019-20 | \$177,500.00      |
| 2020-21 | \$181,700.00      |
| 2021-22 | \$184,800.00      |
| 2022-23 | \$190,700.00      |
| 2023-24 | \$217,100.00      |
| 2024-25 | \$226,800.00      |
| 2025-26 | \$237,900.00      |



## Calculating the employer contribution

To calculate the employer contribution for salary in excess of the governor's statutory salary, the difference between the member's salary and the governor's statutory salary is multiplied by the employer normal cost. The normal cost is subject to change annually.

| Years             | Normal Cost |
|-------------------|-------------|
| 2017-18           | 10.10%      |
| 2018-19           | 9.85        |
| 2019-20           | 10.66       |
| 2020-21           | 10.41       |
| 2021-22           | 10.31       |
| 2022-23           | 10.49       |
| 2023-24           | 10.60       |
| 2024-25 & 2025-26 | 10.34       |

### Example 3: Calculation of employer contribution for salary in excess of governor's statutory salary for a member who worked all year and was not docked

An administrator worked every day of a 260-day contract and his annual salary rate and creditable earnings are reported as \$257,000.00.

|                          |                             |
|--------------------------|-----------------------------|
| \$257,000.00             | Creditable earnings         |
| - 237,900.00             | Governor's statutory salary |
| <u>\$ 19,100.00</u>      | Difference                  |
| x 10.34%                 | Employer normal cost        |
| <u><u>\$1,974.94</u></u> | Employer contribution due   |

### Example 4: Calculation of employer contribution for salary in excess of governor's statutory salary for a member who works a partial year

An administrator resigns at the end of February after working 172 days. His annual salary rate is reported as \$370,000 and his earnings as \$246,666.66 ( $\$370,000 / 12 \times 8$ ).

|                        |                             |
|------------------------|-----------------------------|
| \$246,666.66           | Creditable earnings         |
| - 237,900.00           | Governor's statutory salary |
| <u>\$ 8,766.66</u>     | Difference                  |
| x 10.34%               | Employer normal cost        |
| <u><u>\$906.47</u></u> | Employer contribution due   |



## Billing process

### **Employer contribution due for sick leave days granted in excess of the normal annual allotment**

During the processing of a member's retirement benefit, TRS will provide employers a separate notification for each member with an employer contribution due for sick leave days granted in excess of the normal annual allotment. After the initial employer contribution notification, the amounts due will be reflected on the monthly Employer Bill (available to employers around the 25th of each month in the Employer Access area of the TRS website).

Employer contributions due for sick leave days granted in excess of the normal annual allotment must be paid within 30 days after receipt of the Employer Bill. TRS assumes the Employer Bill is received by the employer on the first of the month following the date it was billed.

### **Employer contributions due on salary increases in excess of 6 percent**

During the processing of a member's retirement benefit, TRS will provide employers a separate notification for each member with an employer contribution due for salary increases in excess of 6 percent. After the initial employer contribution notification, the amounts due will be reflected on the monthly Employer Bill (available to employers around the 25th of each month in the Employer Access area of the TRS website). The initial notification may include a Salary Exemption Affidavit.

The employer should review the nature of the member's salary increases to determine eligibility for an exemption. To claim an exemption, the employer must:

- complete and sign the Salary Exemption Affidavit, and
- **return it to TRS no later than 30 days after receipt of the monthly Employer Bill.**

TRS assumes the Employer Bill is received by the employer on the first of the month following the date it was billed. Salary Exemption Affidavits must be returned on time. If the Salary Exemption Affidavit is not received within 30 days after receipt of the Employer Bill, the employer contributions for salary increases in excess of 6 percent cannot be recalculated. Contributions owed may be paid as a lump sum within 90 days after receipt of the Employer Bill. Contributions not paid within 90 days will accrue interest at 8.5 percent until June 30, 2013, 8.0 percent effective July 1, 2013, 7.5 percent effective July 1, 2015 and 7 percent effective July 1, 2017 until paid. The bill must be paid within three years of receipt.

When excess salary increases are due partially to circumstances that qualify for exemption and partially to circumstances that do not qualify for exemption, the employer may be eligible for a partial waiver of the employer contribution.

### **Employer contribution due on salaries in excess of the governor's statutory salary**

After all earnings for the fiscal year have been reported for an employer and reviewed by TRS, the employer will be provided a separate notification for each member with an employer contribution due for salary in excess of the governor's statutory salary. After the initial employer contribution notification, the amounts due will be reflected on the monthly Employer Bill (available to employers around the 25th of each month in the Employer Access area of the TRS website).



Contributions owed are due as a lump sum within 90 days after receipt of the bill. Contributions not paid within 90 days will accrue interest at 7 percent until paid. The bill must be paid within three years of receipt.

