

# Creditable Earnings



Creditable compensation  
Non-creditable compensation  
Accrual basis reporting requirements  
Conversion rule  
Settlement agreements

**Teachers' Retirement System of the State of Illinois**



***Retirement Security for Illinois Educators***



# Identifying Creditable Earnings is Important

- Some but not all types of compensation are reportable as TRS creditable earnings.
- Proper identification of creditable compensation is important because TRS and THIS contributions must be paid on creditable earnings.
- TRS and THIS contributions should NOT be paid on non-creditable types of compensation.
- Creditable earnings are ultimately used to calculate TRS benefits.



# Definition of “Salary” for TRS Purposes

- Illinois Administrative Code (“board rules”) provides the legal definition of “salary” for TRS purposes.
- Relevant section (Ch. III, Sec. 1650.450) is reprinted on the last page of Chapter 3 in the TRS *Employer Guide*.
- Can be copied and shared as needed.

A photograph of a modern campus building with large windows and a flat roof, surrounded by green lawns and trees with some autumn-colored foliage. The sky is blue with light clouds.

# Reportable Compensation

## Reportable forms of compensation include:

- Contractual teaching and licensed administrative salaries
  - Salary for sick, personal and vacation days used
  - Substitute teaching and homebound teaching earnings
  - Extra duty stipends
  - Summer earnings
  - Contributions to tax-sheltered annuities
  - Flexible benefit plans
  - Some lump-sum payments
  - Board-paid member TRS contributions
  - Gift cards given in lieu of salary



# Contractual Salaries

Contractual salaries for licensed positions are reportable creditable earnings.

- Reportable earnings amounts are capped for two groups of TRS members, due to:
  - qualified pension plan limit, and
  - Tier 2 limit



# Qualified Pension Plan Limit

- Applies to anyone who first became a member of TRS between July 1, 1996 and December 31, 2010.
- Does NOT limit the amount the employer can pay member but DOES limit the amount that is reportable to TRS as creditable earnings.
- TRS and THIS Fund contributions are not due on salaries paid above the cap.
- Cap amount is set by the IRS.
- Typically increases at the start of each school year.
- List of cap amounts is printed in Chapter 3 of the *Employer Guide*.
- Qualified pension plan limit is high - may impact top administrators but rarely impacts teachers.



# Tier 2 Earnings Limit

- Anyone who first became a TRS member on/after January 1, 2011 and did not have prior service in a reciprocal retirement system is a Tier 2 member.
- Tier 2 members are subject to salary cap set by the Illinois legislature.
- Does NOT limit the amount the employer can pay member but DOES limit the amount that is reportable to TRS as creditable earnings.
- TRS and THIS Fund contributions are not due on salaries paid above the cap.
- Cap amount changes annually.
  - Based on 12-month CPI at end of September.
  - TRS does not receive the Tier 2 cap amount until November.
- Chapter 3 in the TRS *Employer Guide* lists Tier 2 cap amounts.



# Salary Cap Summary

- Member prior to 7/1/96: no cap on creditable earnings.
- Became member 7/1/96 – 12/31/10: qualified pension plan limit applies.
- Became member on/after 1/1/11: Tier 2 limit applies.
- Employer should calculate TRS & THIS contributions on pays from start of school year until member reaches cap, then stop TRS & THIS for the rest of the school year.






# Sick, Personal, Vacation Days Used

- Treated just like regular work days.
- Employer should report the days and the earnings to TRS.



# Substitute and Homebound Teaching

- Wages are reportable to TRS.
- Important to track number of days worked as well as earnings.
- Be careful to exclude substitute aide wages and days from TRS reporting and contributions.



# Extra Duty Earnings – Contractual Teachers

- For contractual teachers, extra duty earnings are reportable to TRS if the extra duty work:
  - **is related to the academic program, or**
  - **involves supervising students**
- This applies to contractual teachers at neighboring school districts who do extra duties at your district.
- For contractual teachers, it doesn't matter whether or not ISBE requires licensure for the extra duty.



# Typical Reportable Extra Duties for Contractual Teachers

- Typical extra duties that involve supervision of students include:
  - Coaching
  - Sponsoring a club
- Typical extra duties that are related to the academic program include:
  - Curriculum projects
  - Professional development



# Extra Duties – Non-contractual Teachers

- Includes substitutes, homebound teachers, etc.
- Only extra duties that require licensure are reportable to TRS.
- Example:
  - Substitute teacher works extra hours doing homebound teaching and coaching volleyball.
    - Substitute earnings and homebound teaching earnings are reportable to TRS because ISBE requires licensure for these jobs.
    - Earnings for volleyball coaching are not reportable to TRS since ISBE does not require licensure for coaching.



# Extra Duty Lists in the TRS Employer Guide

- Chapter 3 in the TRS *Employer Guide* has 3 helpful lists.
  - **1<sup>st</sup> list** – duties that require licensure, reportable for everyone
  - **2<sup>nd</sup> list** – duties that are related to academics or involve student supervision but don't require licensure, reportable for contractual teachers but not for non-contractual teachers
  - **3<sup>rd</sup> list** – duties that are never reportable to TRS



# Game/Event Work

- Includes score keeping, time keeping, and ticket taking at games and other school events.
  - If the employer holds the contractual teacher responsible for supervising students while performing these duties, the wages are reportable to TRS.
  - If the employer does not hold the contractual teacher responsible for supervising students while doing this type of work, the wages must be excluded from TRS creditable earnings.



# Summer Work

- Same rules apply to earnings for summer work and regular school term work.
- Earnings for summer school teaching and other summer work that requires licensure must be reported to TRS.
- Earnings for summer duties that don't require licensure but are related to academics or involve supervising students are reportable to TRS for contractual teachers, but not for subs.
- Doesn't matter whether the person is a contractual teacher at your district or another TRS-covered employer. Reporting rules apply if contractual teacher at any TRS-covered employer.

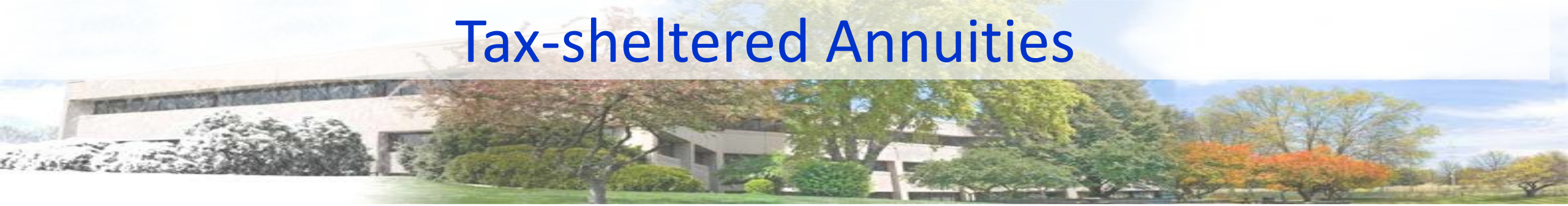




# Summer Earnings Reportable on Accrual Basis

- Summer earnings must be reported on an accrual basis.
- If the summer school session starts in June and ends in July:
  - Earnings for days worked in June go on this year's Annual Report.
  - Earnings for days worked in July go on next year's Annual Report.
- Accrual reporting requirement applies no matter when the paycheck for the summer work is issued.

# Tax-sheltered Annuities



- Contributions to qualified plans such as 403(b) tax-sheltered annuities and 457(b) deferred compensation plans are reportable to TRS as creditable earnings.
- If deducted from member's pay, gross pay amount before the deduction is reportable to TRS.
  - Sheltered from taxes but not from TRS & THIS contributions.
- If paid by the employer as benefit in addition to salary, annuity contribution is reportable to TRS, regardless of whether paid through payroll or accounts payable.



# Flexible Benefit Plan

- When employer offers option to decline board-paid insurance and receive cash or tax-sheltered annuity (TSA) contributions in lieu of insurance, that is a reportable flexible benefit plan.
- Flex plan earnings are reportable for everyone who is offered the choice, regardless of which option member selects.
- The amount reportable as creditable earnings is the salary/TSA amount, even if the member selects the insurance option and it costs more than the salary/TSA amount offered.

# Flexible Benefit Plan (continued)



- Not all school districts offer a flex plan.
- Some flex plans are straight-forward while others are complicated.
- If your district offers a flex plan, please read the Flexible Benefit Plan section of Chapter 3 in the *Employer Guide*.
- If you have questions about flex plans, contact the TRS Employer Services Department at (888) 678-3675.



# Lump Sums and Severance Payments

- Items that are often paid as lump sums include:
  - retirement incentives
  - bonuses
  - tax-sheltered annuities
  - payouts for unused sick or personal leave, and
  - payouts for unused vacation days



# Lumps Sums Paid to Active Members

- Lump sums are reportable to TRS on a cash basis
  - If member is actively employed, lump sum is reportable as creditable earnings in the school year the payment is issued



# Lump Sums Paid to Terminating Members

- The timing of the lump-sum payment determines whether or not it is reportable to TRS as creditable earnings.
  - If lump sum is paid or due and payable prior to/on the last day of work or prior to/with the last regular paycheck, then the lump sum is reportable as creditable earnings for the final year of service.
  - If lump sum is not due and not paid until after the last day of work and after the last regular paycheck has been issued, then the lump sum is not reportable to TRS.



# Employer-paid 2.2 Upgrade or Optional Service

- District may agree to pay a member's optional service cost or 2.2 upgrade cost as an added benefit for the member.
  - Lump-sum rules apply to these payments.
  - Call TRS to obtain the remittance form and review reporting rules.
  - Chapter 7 in the TRS *Employer Guide* explains optional service and 2.2 upgrades, also contains guidance for proper tax-sheltering of employer payments for these costs.





# Board-paid Member TRS Contributions

- When the employer pays some or all of the member's 9% TRS contribution as a benefit rather than deducting it, the board-paid TRS becomes additional creditable earnings to the member.
- There is a compounding effect since contributions are calculated on total creditable earnings including the board-paid TRS.
- In other words, TRS has to be paid on the board-paid TRS as well as on the base salary.
- Special factors are used to calculate creditable earnings and contributions.
- See table and examples in Chapter 3 of the TRS *Employer Guide*.



# Accrual Basis Reporting

- TRS requires most earnings to be reported on an accrual basis.
- Earnings must be reported in the school year the work was done, even if the related pay isn't issued until after that school year is over.
- Example:
  - Teacher does a curriculum project in April.
  - Teacher doesn't turn in the time sheet until the following September.
  - Pay is issued in the school year after the work was done.
  - Stipend for the curriculum project still must be reported as creditable earnings for the prior school year.
- Lump sums are the exception to the accrual basis reporting rule. Lump sums are reportable in the year paid.



# Non-creditable Compensation

- Types of compensation that are NOT reportable to TRS as creditable earnings include:
  - Insurance benefits
  - Non-qualified deferred compensation plans (Rabbi trusts)
  - Travel and expense allowances
  - Travel and expense reimbursements, including
    - Mileage/auto
    - Cell phone
    - Tuition
    - Dues to professional organizations
    - Meeting/conference fees



# Non-creditable Compensation (continued)

- Types of compensation that are NOT reportable to TRS as creditable earnings (continued):
  - Board-paid member THIS contributions
  - Lump sums paid after the last work day and after the last regular paycheck
  - Lump sums (other than accrued salary) paid after a member's death



# Salary Conversion Rule

- If a non-reportable benefit (like a travel allowance) is eliminated or decreases during the final seven years of service, TRS presumes the benefit was converted to salary for the purpose of increasing the member's final average salary.
- When the member retires, TRS will exclude the value of the converted benefit from the member's creditable earnings.
- The conversion rule does not apply to changes made through a collective bargaining agreement.



# Settlement Agreements

- Settlement/resignation agreements, contract buy-outs, and judgements have become increasingly common.
- TRS must review each agreement to determine:
  - how much service credit the member is entitled to receive, and
  - how much can be recognized as creditable earnings
- Key information TRS looks for in settlements are:
  - resignation date
  - characterization of any payments, and
  - payment dates



# Settlement Agreements (continued)

- TRS generally recognizes earnings and service credit through the termination date.
- TRS does not recognize earnings or service credit
  - beyond the termination date,
  - for paid leaves of absence, or
  - for damages
- TRS respects and protects the confidentiality of settlement agreements.