

# UPDATE

## EMPLOYEES WORKING THROUGH A THIRD-PARTY ENTITY

A TRS-covered employer may outsource jobs to a third-party entity. The third-party entity may perform duties or provide services that employees of the TRS-covered employer would otherwise perform.

### Active Employees

A reporting entity (RE) should not include active employees (those not retired from TRS) who are employed through a third party on the monthly reports, including the Employee Demographic report and Regular Payroll (RP) report.

### TRS Retirees

A TRS retiree who is employed by a third-party entity is considered to be employed by the TRS-covered employer unless the retiree does not provide services or perform duties on behalf of the TRS-covered employer. Retirees who were hired by the third-party entity before May 24, 2003 are not subject to this limitation.

Before a TRS-covered employer chooses to outsource jobs that would otherwise be held by employees of the RE, the employer and employee should consider the following:

- Is the company you are contracting with to outsource these positions going to be considered a third-party entity?
- Will TRS retirees who work for the outside company be subject to Employment after Retirement (ER) guidelines?
- Is the employer required to pay surcharges?

If the employer continues to employ individuals who are performing the same services that are also being outsourced, then the outside company is considered a third-party entity for TRS reporting purposes. Any retiree who is employed by the third-party entity is subject to ER guidelines and the TRS employer is responsible for paying surcharges, if applicable. If 100 percent of the services and personnel for that position are provided by the outside party, then TRS retirees would not be subject to the ER guidelines and the surcharges do not apply.

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## REPORTING TIME WORKED AND PAY RECEIVED

TRS coaches field many inquiries regarding how and when REs should report the amount of time worked and compensation paid to employees, since these two report components commonly occur in alternating cycles.

While the most frequent payroll cycle runs monthly in arrears for duties performed in the prior month, there are many variations of payroll cycles across REs. TRS does not have the authority over which payroll cycle an RE utilizes; however, TRS requires all REs to report payrolls to the agency in a uniform manner, regardless of the entity's payroll cycle. This requirement is in place to enforce equity among our members and ensure that the calculations of Members Service Credit and Annual Salary History are inclusive of all the various payroll cycles.

### Report Month

Each report month is required to contain hours and days worked in the report month and pay received in the report month. An RE should not report the amount of time worked or compensation paid to an employee based on the pay periods of the employer.

### Time Worked

The hours and days reported on the monthly record should reflect the time worked by the employee between the first day and the last day of the calendar month, regardless of when the person will be paid for the time worked.

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### **Pay Received**

The compensation reported on the monthly record is based on what the employee **received** in pay between the first and last day of the calendar month. That is regardless of whether the compensation paid was accrued pay for duties performed in a prior month or the work to earn the compensation was performed in a prior month.

This applies to all employees whether they are included on the RP or ER reports.

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## **TIMING IS EVERYTHING**

Some REs face ongoing challenges regarding the timing of reporting and recording submissions to TRS, especially when there is more than one employer reporting an individual.

Many REs have expressed concern about finding out a person is employed at a second TRS-covered employer after the RE has already submitted records for the month. REs have also reported concerns about new member status when an RE checks View Employee Information (VEI).

All of these concerns are certainly valid and completely understandable. TRS acknowledges this and would like to emphasize that the information displayed or validated is based on what is in the TRS system at the time the report is processed or the time and date the VEI is accessed.

For example, a member could be employed at more than one RE – we'll call those RE #1 and RE #2. At RE #1, the member is employed less than half time, and at RE #2 the member is employed half time or more. When RE #1 submits its ED40 showing the member as not TRS-eligible, that is all the information TRS knows if RE #2's ED40 has not posted yet. Therefore, RE #1 will not receive any notification that the member is in a concurrent eligible position at RE #2. However, once RE #2 posts its ED40 reflecting the employee's TRS eligibility as "Yes," then the next month RE #1 submits an RP record it will show an error. The error will let RE #1 know that the member is now TRS-eligible due to concurrent employment. The error could not have been displayed prior to this because the TRS reporting system did not have the information that the person was TRS-eligible at another entity.

Similarly, the information displayed on the VEI screen is the information known by TRS as of the date it is being viewed. For example, an RE researched an employee when the individual was hired in the summer. At that time, VEI showed that the individual was a TRS member and no new member contributions were due to the agency. However, by the time the member's contract began with the employer, the member had requested and received a refund of his/her account, thus becoming a new member again. The information had changed because of the time lapse between the date the individual was researched and the date the individual was first reported by the new employer.

Another challenge regarding the VEI screen is when an employer researches the member after submitting the ED40 for their employment. At the time the ED40 posts, the system recognizes the person as being a member, but displays that new member contributions are due.

A third example of timing affecting the information displaying in VEI is when an RE is behind on reporting. If an RE is working on their September report in January and they do not utilize VEI for a person hired in September until January, the reporting system is basing a member's new member status as of the date the research is performed, not on the status as of the report period being submitted.

The timing of research and reporting also impacts the ER report and our TRS retirees, most critically when a retiree is working at more than one TRS-covered employer. A retiree working at two employers (RE #1 and RE #2) who exceeds the half-time exception when combining all work is subject to surcharges. Therefore, when RE #1 reports the retiree as working less than half time, RE #1 will not receive any notification that surcharges are due unless, and until, RE #2 reports the retiree's time worked. When RE #2 submits its ER report and the retiree's total work time has increased to be more than half time, both REs are required to pay surcharges. RE #2 will receive an error about the surcharges at the time the entity submits its report. Since TRS did not know the retiree had exceeded half-time employment at the time RE #1 submitted its ER report, RE #1 would be notified after the fact that surcharges are now due.

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It is important that TRS retirees are reported in a timely manner in each calendar month they work, as it can affect their annuity, surcharges and their required breaks in service. TRS does its best to notify REs in a timely manner when surcharges are applicable, if not prompted by the system. This also depends on receiving ALL information to make this determination timely. If the RE portal is not allowing surcharges to be submitted when due, please reach out to your TRS coach for assistance as an override may be required.

One of the best ways to avoid these situations with concurrent employment is to encourage your employees/TRS retirees to notify you if/when they are working with another TRS-covered employer. Communication between entities and their employees/TRS retirees is extremely valuable when it comes to reporting and could help entities avoid multiple corrections. Many entities have their own 'TRS Questionnaire' form all new employees are required to complete and some even have current employees complete the form on a yearly basis. Knowing about concurrent employment prior to reporting is key.

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## **MESSAGE FROM SOFTWARE PROVIDERS**

Please keep in mind that when edits/corrections are made in the RE Portal, the changes also need to be entered into the RE's system/database/software. The edits made in the RE Portal do not automatically synchronize with the RE's system. The two systems are not integrated.

If the updates are not made in the software, this will likely cause recurrent errors in future report months.