

# Update

October 2014

Vol. 33 No. 5

## TEACHER RETIREMENT SYSTEM OF TEXAS

### ***TRAQS Payroll Reporting Manual and orientation training materials***

The TRAQS Payroll Reporting Manual and the orientation training materials under “New to TRAQS Reporting?” have been updated with current fiscal year 2015 information and contribution rates.

Access the orientation training materials here: [Orientation Training Materials](#)

Please refer to TRAQS Payroll Reporting Manual here for updated PowerPoint presentations on all required TRAQS reports: [TRAQS Payroll Reporting Manual](#)

### ***Demographic warnings on Member Data Report***

Member Data can be a challenging report to tackle each month. Due to the variety of records it is possible to submit and the interplay of Member Data and Regular Payroll, resolving Member Data Warnings can be difficult. Below are some tips and additional information to assist you with submitting Member Data records and resolving warnings.

Always submit Member Data and make sure you have addressed all Warnings before submitting the Regular Payroll report. This will reduce the number of errors on Regular Payroll and help the TRAQS reporting process go more smoothly.

#### **Resolving member data warnings:**

- When the Member Data report goes to ‘Incomplete’ status, only the records that cause Warnings have not processed. All other records on the Member Data file were accepted and processed.
- Resolve Warnings through Member Data Correction.
- DO NOT resubmit the entire original Member Data file.
- Pay close attention to what the Warning message says. If the message instructs you to contact TRS, you must contact your TRAQS coach. You will not be able to resolve the Warning without your coach’s assistance.
- If you have additional Member Data records to submit after the initial Member Data report goes to ‘Complete’ status, create a new Member Data file with only the new records. You can submit as many Member Data reports as you need to each month.

#### **Additional instructions for ‘FG’ warnings:**

Following the guidelines below will help the Member Data process for ‘FG’ Warnings go more smoothly for you. The most common reason you will receive an ‘FG’ Warning is when a person has changed his/her name and is also starting a new position at a new employer. These are people who have existing accounts with TRS, but are new employees for you or are new to a membership eligible position.

- Always look up the new employee on ‘View Employee Information’ in TRAQS. This might help you anticipate if the person’s name has changed since he or she was last reported to TRS.
- Submit the MD20, MD30, and MD40 as required for a new employee.
- If a Warning is generated that indicates the information reported by you does not match what is on TRS’ records, go into Member Data Correction and click ‘OVERRIDE’ on the MD20 ONLY.
- Click ‘Submit All Changes.’
- Submit a matching Signature.
- If a new Warning is generated with a code ‘FG’, the Warning message will say: “Cannot Alter/Adjust Demographic Information Without Prior Deposits-Please Contact TRS.” At this point, you **MUST contact your TRAQS coach.**

- Your TRAQS coach will request a copy of the Social Security card (for name changes) or driver's license (for date of birth or gender corrections) to verify the information being reported.
- Once your coach has verified the information, TRS will perform an override to allow the change to go through.
- Your coach will then guide you through the final steps of resolving the Warning.

#### **When to submit member data records and what record type to submit:**

- Submit **MD20, MD30 and MD40** during the month a new employee will appear on your Regular Payroll for the first time. This is required **for employees who are new TRS members as well as those who are already TRS members, but are new employees at your entity.**
- Submit **MD25** when an **existing employee** changes his or her name or any other demographic information does not match what is currently on file at TRS for that existing employee.
- Submit **MD30** when an existing employee **changes address.**
- Submit **MD40** each school year for all TRS members as well as when a new employee is hired.
- Submit **MD45** when you have already submitted an MD40, but need **to change the contract or position** information previously submitted.
- Submit **MD90** when an employee **terminates employment** for any reason. This should be submitted in the month the employee is reported to TRS for the final time on the Regular Payroll report.

#### **MD40 Records**

For existing employees, always submit an MD40 at the beginning of the new school year or at the start of the work agreement. For new employees, always submit an MD40 at the time of hire but before reporting the person on Regular Payroll for the first time.

If an employee is reported on the Regular Payroll report without a current MD40, the Regular Payroll report will reject with the following error: "Contract certification not found for FY:XXXX – You must submit an MD40 record for this member."

- Verify whether an MD40 has been submitted for this member under the correct SSN. If not, submit the MD40 record on the Member Data report.
- If an MD40 has been submitted, query the Member Data report to view any warning and make any necessary corrections through Member Data Corrections. Remember, any Member Data records with Warnings have not been accepted.
- Pay close attention to the fiscal year noted in the error and warning. Verify that the work agreement dates are for the fiscal year indicated.

The ending date of the MD40 should be based on the ending date of the contract or work agreement that the employee was originally hired to work. Whether the employee's hiring and termination date is within the same month or different months, the ending date on the MD40 should reflect when the contract end date would have been if the employee had not terminated. After submitting the MD40, submit a separate MD90 termination record with the actual termination date.

**For additional information on correcting Member Data Warnings, please see the Regular Payroll/Member Data presentation on the TRAQS Payroll Manual page of the TRS website.**

Once Member Data has processed and you have addressed all Warnings, you may move forward with submitting your Regular Payroll report.

### ***Changing payroll dates to synchronize with the TRS standardized school year***

If the reporting entity is considering changing payroll dates in order to synchronize with the TRS standardized school year, please consider the following information before making the change.

In 2011, the Texas Legislature changed the definition of school year for TRS benefit calculation purposes. For purposes of receiving a year of service credit and for determining a member's annual compensation, a school year is now a 12-month period beginning Sept. 1 and ending Aug. 31 of the next calendar year. The change affected all members and all compensation beginning Sept. 1, 2013.

Prior to the change, a member's annual compensation was based on either a 12-month period beginning Sept. 1 and ending Aug. 31 or from the beginning date of a qualified contract that for each year began no earlier than July 1 and extended past Aug. 31 of the same calendar year. The effect of the non-standard school year was that TRS credited compensation and salary for each member based on the member's contract dates. TRS had to manually adjust and calculate each member's annual compensation when a distribution was requested and, as a result, there were often discrepancies between the salaries reflected on annual statements, benefit estimates and those used to calculate benefits. The standardized school year definition eliminates the need for TRS to make manual adjustments and results in more accurate benefit estimates and annual account statements. The standardized school year is now the same as the TRS plan year and the 12-month period used to report employment after retirement.

**The result: A member's annual compensation is *no longer* based on when the compensation is earned.** A member's annual compensation is the amount **PAID** to the member between Sept. 1 and Aug. 31.

The impact of the change in the standardized school year is most evident in the year in which the member retires. A member who retires at the end of his/her contract year may not be credited with all compensation earned during the last contract year. **If the final contract year is one of the member's highest contract salaries, it is important to understand that the member may not receive the benefit of the full contract salary in the annual compensation used by TRS to calculate the member's retirement benefit.** This is because salary paid to a member prior to Sept. 1 for work performed under a contract that begins prior to Sept. 1 is credited to the prior school year. Members should carefully consider what is the best month to retire in order to maximize retirement benefits.

Please note that the annual compensation may not include compensation "deferred" from the prior school year for the purpose of manipulating the annual compensation for the final school year. Also, the employer may not manipulate payroll dates or when compensation is reported to ensure that a member receives credit for all compensation earned during the final **contract** year. Manipulating payroll dates for one month, deferring the report to TRS of compensation paid in prior months until the September report, and other similar efforts to circumvent the result of the standardized school year unfairly inflate the retirement benefit paid to the retiree and more importantly, **is unlawful**. See Section 821.101, Texas Government Code for information regarding the type of criminal offense committed when making false reports to TRS.

If the reporting entity wishes to change all payroll dates from the end of the month to the beginning of the month to address the standardized school year, please note that you must do so for all months, not just for September. More importantly, if you are considering changing only the payroll date for September to ensure that compensation that would usually be paid to a member in August will be credited in the final school year, please note the definition of creditable compensation for TRS purposes is that the compensation must be paid or payable at fixed intervals. Also, Texas law requires that employees who are not exempt from the Fair Labor Standards Act of 1938 (FLSA) are paid at least twice a month and each pay period must consist as nearly as possible of an equal number of days. Employees exempt from the provisions of the FLSA must be paid at least once a month. Manipulating the payroll date for September may violate these requirements and may cause TRS to not credit the compensation. Please check with your school's attorney before shifting payroll dates.

It may help to think about the standardized school year for TRS benefit calculation purposes like the unique period used by the Internal Revenue Service (IRS) for income reporting. Even though an employee may have a contract that begins in July or August, your employer reports to the IRS the compensation paid to the employee based on a 12-month period beginning Jan. 1 and ending Dec. 31. The IRS uses the calendar year to determine how much income tax is owed. TRS uses a 12-month period beginning Sept. 1 and ending Aug. 31 to determine the member's annual compensation for benefit calculation purposes. All that the employer is required to do is to report each month to TRS the amount paid to employees that same calendar month. TRS will calculate the annual salary for that 12-month period. You are not required to change payroll dates or to change contract dates in order to comply with state law and the rules adopted by the TRS Board of Trustees.

### ***Employer audits of TRS reporting entities to begin at selected locations***

As a result of two Governmental Accounting Standards Board (GASB) standards, TRS Internal Audit staff will begin employer audits of selected reporting entities this fiscal year.

The American Institute of Certified Public Accountants (AICPA) has issued guidance related to the implementation of the new standards, GASB67 and GASB 68. This guidance emphasizes the consideration of plan controls over active member census data being provided by TRS reporting entities, specifically focused on the accuracy

and completeness of the data. Auditing census data is the responsibility of both TRS auditors and reporting entity (employer) auditors.

TRS Internal Audit staff will test employer census data and controls pertaining to census data reporting process for active members. TRS will review the following elements of the data: gender; dates of birth; dates of hire or years of service; eligible compensation; and termination or retirement dates. TRS auditors will also test eligibility and compensation for accuracy, completeness, and compliance with TRS laws and rules. If you are selected for an employer audit, you will be contacted by TRS Internal Audit staff.

As outlined in the June 2014 TRS *Update*, the Texas State Auditor's Office will also be conducting site visits to ensure employee payroll and demographic data submitted to TRS is accurate. TRS respectfully requests your cooperation during this process to ensure requested records are expeditiously collected and provided to Texas state auditors.

## **2015 TRS Board election nomination forms available online**

Active public school district, charter school and regional education service center employees who are TRS members may now request petitions to nominate candidates to a position on the TRS Board of Trustees.

In spring 2015, an election will be held to field nominees who are eligible for appointment to fill one of the two public education positions on the board of trustees. The position will be for a six-year term beginning as early as Sept. 1, 2015. All TRS members whose most recent credited service is or was performed for a public school district, charter school or regional education service center are eligible to vote in this election. Members of the system who are currently employed in a TRS-eligible position by a public school district, charter school or regional education service center may have their names listed on the official ballot as candidates by filing an official petition.

Petitions must be signed by 250 public school district employees who are TRS members and whose most recent credited service is or was performed for a public school district, charter school or regional education service center. In addition, when members sign the petition, they must include their printed or typed names, the first five digits of their current residential zip code, and the last four digits of their social security number. All valid nominating petitions filed with TRS by Jan. 20, 2015, will be accepted.

By March 15, 2015, TRS will mail ballots and an edition of *TRS News* containing candidate information to all TRS participants who are eligible to vote in the elections. TRS must receive completed ballots on or before May 5, 2015. Then, TRS will certify the names of the three candidates who received the highest number of votes to the governor. The governor will then appoint one of those candidates to serve on the board.

To obtain a petition form, you may:

- Print the petition form from the TRS website;
- Write TRS at 1000 Red River; Austin, TX 78701-2698;
- Call 1-800-223-8778, ext. 2702; or
- Fax a request to 1-512-542-6585.

Nominating instructions are included on the form.

### ***TRAQS - Tip of the Month***

The TRS definition of a substitute is a person who serves on a temporary basis in the place of a current employee and is paid at the daily rate of pay as set by the employer. This definition applies to both active members and retirees. For TRS purposes, work in a vacant position is not considered substitute service.

