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## Board Paid Annuities – How to Implement

These instructions describe the steps required to implement a Board Paid Annuity (a 403b or other deferred compensation deduction such as 457b, etc.) in a district's payroll system.

The board paid annuity consists of gross pay in the amount of the board paid item, as well as a deduction of the same amount.

The gross pay will be excluded from the taxable wages for Federal income tax, Social Security tax, Medicare tax and State income taxes. Therefore the amount will not be included in the amounts reported in boxes 1,3 and 5 – as well as box 16 - of the employee's W-2 form.

The gross pay will be included in the wage base of the employer contribution to the Office of Retirement Services Michigan Public Schools Employee Retirement System (the MiCase HR/Payroll System benefit code "MPSRS"). Also, the gross pay will be included in the wage base of the deduction code "MIP" – which is the employee MIP deduction paid to the retirement system.

The board paid annuity can be setup to appear in box 12 of the employee's W-2 form, with appropriate code, or not appear in box 12, depending on the plan your district is using. The instructions below detail how to setup for either case.

To summarize:

The amount of the board paid annuity will be excluded from the wage base of the following deductions (e.g. "pre-tax"):

- Medicare tax (deduction code MCT)
- Social Security tax (deduction code SST)
- Federal Income tax (deduction code FIT)
- State Income tax (deduction code MIT – or IIT, WIT, etc.)

The amount of the board paid annuity will be included in the wage base of the following items:

- Employer contribution to the Office of Retirement Services Michigan Public Schools Employee Retirement System (benefit codes MPSRS, DC-EM and PHFEM)
- Employee contribution to their retirement account (deduction codes MIP, RHC, DC-MC and PHFMC)

1. Create code(s) for gross pay items used to enter the board paid annuity.

### **Module – Payroll Module Administration**

#### **Screen – Gross Pay Items Definition Screen**

If you are going to pay this amount and have the gross pay distributed to more than one ASN for a single employee, you will need to create the number of codes equal to the maximum number of ways an employee is to have their board paid gross pay distributed. Example: You have a board paid annuity for an employee to be distributed to 3 accounts, create 3 codes as follows:

- BPA1 for Board Paid Annuity (1<sup>st</sup> ASN, split 1)
- BPA2 for Board Paid Annuity (2<sup>nd</sup> ASN, split 2)
- BPA3 for Board Paid Annuity (3<sup>rd</sup> ASN, split 3)
  - F9 for new, or click "New" on the toolbar
  - Code – ex: BPA1
  - Description –Board Paid Annuity

- Abbreviation – ex: BPA1
  - Balance Report – Put a check in the box for the codes to show up on the balance report
  - F4 to save, or click “Save” on the toolbar
2. If you want the board paid item to appear on the employee's W-2 form, in box 12, you may skip this step and use the deduction code “403B “ in step 5. below. If you do not want the board paid item to appear in box 12, do this step.

**Module – Payroll Module Administration**

**Screen – Deduction Definition Screen**

Create the code BP403 for Board Paid 403b for the deduction

- F9 for new, or click “New” on the toolbar
- Code – BP403
- Description – Board Paid 403b
- Abbreviation – BP403
- Deduction Priority – The priority should be 407.
- Default Frequency – Choose the frequency from the drop down menu
- F4 to save, or click “Save” on the toolbar

**Module – Payroll Module Administration**

**Screen – Deduction Definition Screen**

The BP403 code must be excluded from the wage base of Federal and State taxes. For each of the deduction codes, “FIT”, “MIT”, (and any other state tax codes (“IIT”, “WIT”, etc.), select the deduction record and do *Operations > Add Excluded Deduction Code* and exclude the code “BP403” from the wage base of the deduction code selected.

3. Update the definitions of benefits in the system, so that the board paid annuity gross pay does not affect the distribution of the benefit amounts to the general ledger.

**Module – Payroll Module Administration**

**Screen – Benefit Definition Screen**

For the benefit codes “FICA “ and other benefit codes – except “MPSRS”, “DC-EM”, “PHFEM” and “MURSP”, do *Operations > Add Excluded gross pay Item Code* and exclude the code(s) “BPA1”, “BPA2”, etc. from guiding benefit distribution. Repeat for each benefit code to be defined so that the gross pay entered with the codes BPA1, etc. does not affect the distribution of that benefit to different accounts in the general ledger.

4. This step includes the amount of the board paid annuity in the employee's gross pay, so that the MPSERS benefit and the MIP deduction may be calculated on it.

**Module – Payroll Employee Records**

**Screen – Additional Contracts/Salaries Screen**

Enter the amount of the board paid annuity for each person as follows:

- F9 for new, or click on “New” on the toolbar
- Item – Add the appropriate item code – ex: BPA1, BPA2, etc.
- Amount – Enter the per pay amount
- Normal – Enter the ASN

- Contracted – In general, it is probably preferable to setup these items as Contracted. That way, the total amounts will appear on the Contract Balance Report and the balances may be included in the amounts to be accrued at fiscal year end. However, they can also be setup as Salaried, if there is no need to track total amounts and/or accrue unpaid amounts at fiscal year end.
  - Payment Frequency – Choose the frequency from the drop down menu
  - Earnings Code – “XFICA”
  - Begin/End Dates – Enter contract dates
  - ORS Class Code – Enter the number or choose from the drop down menu
  - F4 to save, or click “Save” on the toolbar
5. This step includes the amount of the board paid annuity in the employee’s deductions; so that it may be included in the employee’s W-2 records – if desired – and also that it may be paid to the vendor (provider) as needed.

**Module – Payroll Employee Records**

**Screen – Employee Elective Deductions Screen**

Enter the board paid annuity information (deduction side) for each person as follows:

- F9 for new, or click “New” on the tool bar
  - Code – If you want the board paid item to appear on the employee’s W-2 form, box 12, enter “403B “. To omit the amount from box 12, enter “BP403”.
  - Organization – Enter the appropriate organization for the vendor
  - New Amount – Enter the per pay amount
  - Ded. Frequency – Choose the frequency from the drop down menu
  - F4 to save, or click “Save” on the toolbar
6. Verify the entries made above by reviewing Pre-Payroll Balance Reports...

**Module – Payroll Module Administration**

**Screen – Payroll Module Control Screen**

- Select *Reports > Pre-Payroll Balance Reports... > Additional Contracts Balance List* and verify that the board paid annuity amounts are correctly entered as additional contracts (or salaries, if entered as such). Note that the *Earn.* code should be “XFICA”.
- Select *Reports > Pre-Payroll Balance Reports... > Employee Deductions Balance List* and run the report for each deduction item code used for the board paid annuities (403B, BP403, etc.). Verify that the entries on the reports are correct, including Deduction and Organization codes, as well as Frequency, Amounts, etc.