Workers' Compensation Pay - How to Report to ORS

These instructions describe the steps required in the MiCase HR/Payroll system, to handle workers' compensation payments made to employees by third parties.

When an employee receives workers' compensation pay, it is considered reportable compensation and must be reported to the MPSERS. For detailed instructions, refer to the ORS Reporting Instruction Manual, Chapter 5.

Because the pay is reportable compensation, the workers' compensation wages will be included in the wage base of the benefit codes "MPSRS" and "DC-EM" which are the employer's contributions to the retirement plan. Also, the pay will be included in the wage base of the deduction codes "MIP", "RHC" and "DC-MC" which are the employee's contributions to their retirement plan.

The workers' compensation pay is not subject to Medicare tax, Social Security tax, Federal income tax or State income tax deductions. 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.

Also, the workers' compensation pay will be excluded from the wage base of the FICA and WCOMP (Workers' Compensation) benefits.

To summarize:

The amount of the workers' compensation pay will be _excluded_ from the wage base of the following deductions:

- 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 workers' compensation pay will be _excluded_ from the wage base of the following benefits:

- FICA tax (benefit code FICA)
- Workers' Compensation (benefit code WCOMP)

The amount of the workers' compensation pay will be _included_ in the wage base of the following items:

- Michigan Public School Retirement System employer contribution (benefit code MPSRS)
- MPSRS Pension Plus Defined Contribution – Employer Match (benefit code DC-EM)
- Employee contribution to their retirement account (deduction code MIP)
- MPSRS Retiree Health Care Trust (deduction code RHC)
- MPSRS Pension Plus Defined Contribution – Member Contribution (deduction code DC-MC)

Effective July 1, 2010, *employee* contributions for WWC earnings will be posted by ORS to the member's account with the understanding that these contributions will be collected by the school, consistent with other compensation. These changes are effective for all WWC *reported* to ORS after June, 30, 2010, regardless of when it was paid to the employee. This applies to schools that are self-insured as well as those schools that use a 3rd party vendor to pay WWC claims. The employee contributions owed will be reflected on the employer statement in the month they are reported to ORS.

To report workers' compensation pay to ORS using the MiCase HR/Payroll system, the following steps must be done. The steps bring the payroll system in balance with the ORS records, per the above notes.

Please note: Steps 1, 2, and 3 should have been done automatically by the system when the November 1, 2010 HR/Payroll System release was installed at your district. Therefore you do not need to do them yourself. However, you may verify that your system is configured correctly by reviewing the *Operations/Error Log* messages that appear immediately after the release was installed and also by noting that your system is configured the way steps 1, 2 and 3 indicate.

1. If the "WCPAY" earnings code is not present on your system, create the earnings code to enter on the adjustment register record for the workers' compensation wages received by the employee.
    Module – Payroll Module Administration
    Screen – Earnings Codes Definition Screen
    - F9 for new, or click "New" on the toolbar
    - Code – WCPAY
    - Description – Workers' Compensation Pay Adjust
    - Abbreviation – WCPAY
    - F4 to save, or click "Save" on the toolbar

2. If the "WCPAY" earnings code was not present and you added it in step 1, you must exclude it from the wage base of Federal, State, Medicare and Social Security taxes. Otherwise, just verify that the "WCPAY" has been excluded from these deductions.
    Module – Payroll Module Administration
    Screen – Deduction Definition Screen
    For each of the deduction codes, "FIT", "MIT" (and any other state tax codes ("IIT", "WIT",etc.), "MCT" and "SST", select the deduction record and do *Operations > Add Excluded Earnings Code* and exclude the code "WCPAY" from the wage base of the deduction code selected.

3. If the "WCPAY" earnings code was not present and you added it in step 1, you must exclude it from the wage base of the employer paid FICA and Workers' Compensation benefits. Otherwise, just verify that the "WCPAY" has been excluded from these benefits.
    Module – Payroll Module Administration
    Screen – Benefit Definition Screen
    For each of the benefit codes, "FICA" and "WCOMP", select the benefit record and do *Operations > Add Excluded Gross Pay Earnings Code* and exclude the code "WCPAY" from the wage base of the benefit code selected.

4. Review and make note of the Calendar YTD for gross wages and the MPSRS and MIP wage bases and YTD amounts. These can be found in *Payroll Employee Records module > Employee Calendar YTD Totals Screen.*

5. Run an Administrative Backup prior to adding the register record in step 6.

6. Calculate the amount owed and enter on a register prep screen as follows, along with the total wages: (See following examples of the Register Prep screen and corresponding report)
   Module – Payroll Employee Records
   Screen – Register Record Preparation Screen
   - Click "Home" on the keyboard and enter the employee name
   - Payroll Date – Enter a date
   - Register Type – A (Adjustment)
   - Check/Deposit No. – Use initials
   - Description – ORS Adjust for Workers Comp
   - # - 1
   - Type – P (Gross Pay)
   - Item Code – AG (Adjustment to Gross)
   - Earnings Code – WCPAY (Workers' Compensation Pay Adjust)
   - Wage Code – 01 (Regular Wages)
   - Pay Rate – Enter the total wages
   - Pay Units – 1.00
   - Service Units – enter the service units the employee would normally receive if they were working
   - Class or Organ – 8000
   - Wage Base/Contract Ded – 0.00
   - ASN – Enter the appropriate ASN
   - Enter through the ASN field and the grid will auto fill with all related wages, benefits and deductions
   - Fix amounts on each record. All wages, benefits and deductions should be changed to reflect a zero dollar amount, with the exception of the P:AG, B:MPSRS, B:DC-EM, D:MIP, D:RHC and D:DC-MC records. To change the amounts to zero, do the following:
     - Select the record you wish to work with, ex: B:DENT
     - On the Register Record Line Item, put an "X" in the Fix Amt. Field
     - Tab to the Amount of Line Item field and enter a 0.00
     - Enter through the ASN field and the grid will automatically correct to reflect the zero amount you entered
     - Repeat for all wages, benefits and deductions
     - The P:AG record should be left as originally entered
     - The system will calculate the MIP deduction (D:MIP) based on the employee's wage base and workers' compensation pay. If for some reason you'd like a different amount, you can follow the process above to fix and enter the correct dollar amount based on the MIP deduction you calculated.
   - Note: The FIT and MIT wage bases should reflect a negative amount (see following example that shows – 106.17). This is an automatic adjustment calculated by the system for the pre-tax deductions of MIP, RHC and DC-MC.

Register Preparation Screen

Employee Register Record Report

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P/R Schedule : ADJST          Description  : ORS Adjust for Workers Comp
P/R Date     : 10/27/2010      Voided?      : N
Register no. :  1              Payment Type : A          Gross Pay   :  1,234.56
Register Date: 11/16/2010      Check/Dep. # : dlv        Net Pay     :  1,128.39

T Item  Earn   Pay Units   Serv. Units  Base / Ded Organ Amount      ASN
- ----- ----- --,---.---  ----,---.--  ---,---.-- ----- ---,---.-- -----
P AG    WCPAY     1.000        70.00        0.00 8000   1,234.56 11005
B DC-EM           0.000         0.00    1,234.56 HP-DC     12.35 12008
B MPSRS           0.000         0.00    1,234.56 MPSRS    221.11 12008
D DC-MC           0.000         0.00    1,234.56 HP-DC     24.69
D FIT             0.000         0.00     -106.17 DFIT       0.00
D MIP             0.000         0.00    1,234.56 DMIP      44.44
D MIT             0.000         0.00     -106.17 DMIT       0.00
D RHC             0.000         0.00    1,234.56 DMIP      37.04
*--------------------------------------------------------------------*
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- **Operation: Add Register Record to System** – The register will now show up in the Employee Register Record Screen. Additionally, the operation will also create an accounts payable batch in the FA system.

7. Review the calendar year to date wage bases for the employee on the *Calendar YTD Totals Screen*. Compare the totals to those you noted in step 4. The totals should have adjusted by the total dollar amount entered on the register screen.

8. In the Financial Accounting system, the A/P payroll batch will include the gross pay (P:AG), benefits (B:DC-EM, B:MPSRS), and deductions (D:DC-MC, D:MIP, D:RHC).
    - Delete the gross pay item as this should not post to your general ledger (the workers' compensation was paid by a third party provider).
    - Most districts do not post the deductions, so these items can be deleted as well. For those districts that do record the deductions, follow your normal procedures to post the deductions, or modify the batch accordingly.
    - The benefit items can be posted as you normally would.

Suggestions for Handling Workers' Compensation:
- Enter the Workers' Compensation at least once quarterly for 941 purposes.
- If the employee returns to work and will receive pay, you can enter a miscellaneous deduction on the next payroll run to collect the money from the employee for the total of the MIP, RHC and DC-MC owed by the employee to the district.
- If the employee is not expected to return to work and therefore will not receive any further pay from the district, then the district may make arrangements to collect the money from the employee.