

Q & A for PAO and PAU Staff Transitioning to Bi-weekly Pay Cycle

Please note: This is a working document and as information becomes available we will update this document accordingly. A copy will be posted on the FMS website at www.fms.indiana.edu . Please check the website periodically for the most up to date information regarding the transition. You can also check the UHRS website for current information regarding the bi-weekly PTO accrual rates, supplemental retirement instructions and other information regarding the move to a bi-weekly pay schedule at <http://www.indiana.edu/~uhrs/flsa/compliance.html> .

Why is this change to the bi-weekly pay cycle occurring?

Fair Labor Standards Act (FLSA) regulations require employees to track their time worked by the hour and require that overtime be paid for work in excess of 40 hours in a work week, except for certain job duties and salary levels that are “exempt” from these provisions. These regulations are monitored by the U.S. Department of Labor (DOL), which can impose fines on entities that do not ensure these regulations are carefully followed.

A review of timesheets by Internal Audit found significant FLSA compliance issues for PAO and PAU Staff employees. One finding was a **39 percent error rate in timesheets** for such inconsistencies as employees not recording all hours worked or recording hours worked that were not actually worked.

To address the above audit findings and to install a more effective system that tracks hours worked and overtime pay, as required by FLSA regulations, PAO and PAU Staff employees will be switched from the University’s monthly payroll cycle to the bi-weekly cycle. The bi-weekly payroll cycle and the TIME system are specifically designed to track hours worked and overtime, whereas the monthly payroll cycle focuses on “monthly salary” for positions exempt from above FLSA regulations.

Will this change affect both PAO and PAU staff?

Yes, across all campus locations.

Why not develop a new system to manage the process of tracking hours worked and overtime pay, while keeping the PAO and PAU staff on a monthly pay schedule?

It is not cost effective to have a separate time tracking system for the following reasons:

- A monthly system may not satisfy FLSA and state of Indiana requirements for the payment of overtime in a timely manner.
- The system will need to be built. In addition to the cost to actually build the system, there would be ongoing maintenance and support costs associated with running it.
- It would take time to get the system up and running thereby delaying our compliance with DOL and FLSA regulations.
- We would have to add 12 additional payrolls per year. The departments would have 12 additional payrolls to manage each year so the additional work would be shared with the departments. By using TIME, the departments have two separate processes merged into one which creates an efficiency for them. This also helps the departments reduce the risk of error.
- Furthermore, there are additional tasks that would need to be handled centrally: Adding all the cutoffs to the pay calendar, running separate batch processes, running the actual payrolls, etc.

Why not convert all PAO/PAU and bi-weekly paid employees to a semi-monthly pay schedule? It would mean that everyone was still using the same system to track hours and overtime, but it would keep the PAO/PAU population whole as far as their monthly salary goes.

The State of Indiana has a legal requirement that employees must be paid within 10 days of the end of the pay period in which they worked. A semi-monthly pay schedule would result in staff being paid on the 11th and sometimes the 12th day after the pay period ends. This would be out of compliance with state law. An example is illustrated below:

Pay period end date: June 15, 2009
Pay date: June 30, 2009 (11 working days after the close of the pay period)

Were it not for the state law, it would still not be feasible to go to a semi-monthly pay cycle because the TIME system is hard coded for bi-weekly pay cycles only. In order to move everyone to a semi-monthly pay cycle, the TIME system would need extensive modifications. That would result in delaying compliance with FLSA and DOL regulations as well as considerable development costs.

What is the timing of the transition?

All PAO and PAU staff will move to a bi-weekly pay cycle starting on August 23, 2009 at midnight. At that time, they will begin using the TIME timekeeping system to track their time worked, PTO, sick time, etc.

Departments will need to initiate an e-doc to create a TIME assignment for each employee prior to August 23, 2009. More detail will be forthcoming regarding this process.

How does the TIME system work?

Required usage of the system in either a synchronous or asynchronous fashion is based on your campus' decision for recording time. Synchronous means recording time worked in real time. Asynchronous means recording time using an electronic timesheet. Each campus will be responsible for training its users as needed.

Each campus made their decision whether to use TIME in a synchronous or asynchronous fashion when the University began implementing TIME in 2008. See below for your campuses method of recording time.

- BL Asynchronous
- EA Synchronous
- IN Synchronous
- KO Asynchronous
- NW Asynchronous
- SB Synchronous
- SE Asynchronous

What are important pay dates that I should know?

The final monthly payroll payment will be received on August 31, 2009. It will include time worked for August 1-August 22. The timing of the transition would have caused a cash flow shortage equivalent to 6 days. Because the University would like to minimize any adverse impact on its valued employees, each employee in their position before July 1, 2009 affected by this change will receive a one-time transition supplemental payment for

6 days. This payment will be included on the August 31, 2009 paycheck, effectively making it a regular payroll payment. This transition supplemental payment does not need to be repaid to the University.

The first bi-weekly paycheck will be received on September 18, 2009 for the pay period August 23, 2009 through September 5, 2009. The second bi-weekly payment will be received one day earlier than usual on October 1, 2008. Again, this change is being made in order to minimize any adverse impact on employee cash flow. Payroll payments will be received every other Friday thereafter.

Will all PAO and PAU employees receive the 6 day transition supplemental?

No, only those PAO and PAU employees in their positions before July 1, 2009 will receive the transition supplemental payment.

What is the effect on my gross payroll?

There is no change to the employee's annual salary. However, payroll payments will be based on 26 bi-weekly pay cycles per year rather than 12 monthly pay cycles. In ten months of the year there are 2 bi-weekly payroll payments per month. In two months of the year, one in the spring and one in the fall, there are 3 bi-weekly payroll payments.

In order to calculate gross bi-weekly payroll, annual salary should be divided by 26. Multiply this resulting amount by 2 to calculate new monthly gross.

Example of Monthly Gross:

Annual Gross:	\$36,000
Current Monthly Gross:	\$ 3,000
Bi-weekly Gross:	\$ 1,384.62
New Monthly Gross:	\$ 2,769.24 for 10 months per year
	\$ 4,153.86 for 2 months per year

Although the new monthly gross is less than the current gross, there are 2 additional bi-weekly payroll payments per year. The monthly gross for those months using the example above is: \$4,153.86. This additional payment can be used to manage cash flow throughout the year. The first month that this happens is in April 2010.

What is the effect on my net payroll?

There is no change to the employee's annual net payroll. See example below.

Salary

Annual gross salary	\$36,000
Monthly salary	\$ 3,000
Bi-weekly salary	\$ 1,384.62

Tax Withholding

Federal	Single/1
State	1 exemption
Local	Monroe county code #105

Monthly Pay Tax Breakdown

Regular salary	\$3,000
Federal Tax	\$301.21
State Tax	\$99.17
Local Tax	\$30.33
Social Sec	\$186
Medicare	\$43.50
Net check:	<u>\$2,339.79</u>

Net Year Total: 12 x \$2,339.79= \$28,077.48

Biweekly Pay Tax Breakdown

Regular salary	\$1,384.62
Federal Tax	\$139.02
State Tax	\$45.77
Local Tax	\$14.00
Social Sec	\$85.85
Medicare	\$20.08
Net check:	<u>\$1,079.90</u>

Net Year Total: 26 x \$1,079.90= \$28,077.40

When do the bi-weekly pay periods begin and end?

The bi-weekly pay period begins on Sunday at 12:00 am and runs for two weeks, ending at midnight on the second Saturday. Payment for that pay period is paid on the second Friday following the end of the pay period. See payroll calendar for all the bi-weekly pay cycles in 2008:

http://www.fms.indiana.edu/payroll/pay_advice/payschedule2009.asp

Example:

Pay period begins:	August 23, 2009 at 12:00 am
Pay period ends:	September 5, 2009 at midnight
Pay date:	September 18, 2009

Will these changes affect the tax bracket that I am in now?

The employee will earn the same gross amount on a bi-weekly and monthly pay schedule. However for 2009, there is a chance that the employee might move to a higher bracket for a portion of their income. The income that could be taxed at a higher rate is only the additional amount received in 2009, not the employee's entire income. This is due to the fact that the monthly payroll for December 31, 2008 was paid in January 2009. That paycheck is not deferred to January 2010 for the bi-weekly pay schedule in December 2009. Please see the comparison of wages for a sample employee for 2009 versus 2010 in order to understand the difference in income between the two years.

Salary

Annual gross salary	\$36,000
Monthly salary	\$ 3,000
Bi-weekly salary	\$ 1,384.62

2009 Gross W-2 Wages

Monthly pay dates:

1/2, 1/30, 2/27, 3/31, 4/30, 5/29, 6/30, 7/31, 8/31= 9 payments

Biweekly pay dates:

9/18, 10/2, 10/16, 10/30, 11/13, 11/25, 12/11, 12/24= 8 payments

Monthly pay: 9 x \$3,000= \$27,000

Biweekly pay: 8 x \$1,384.62= \$11,076.96

2009 Total = \$38,076.96

*If this employee were to finish out the year as a monthly their total gross would be \$36,000 (\$3,000 x 12), a difference of \$2,076.96

2010 Gross W-2 Wages

There are 26 biweekly pay dates in 2010.

Biweekly pay: 26 x \$1,384.62 = \$36,000.12

Will the “transition supplemental” payment be taxed at the current supplemental tax rate of 25%?

No, the transitional payment equal to 6 days worked will not be taxed at the current supplemental rate tax of 25%. We are currently researching options to process this payment so that it is taxed as closely to regular wages as possible. When more information is available, we will certainly relay that information to each affected employee.

Will there be a contribution to my IU Retirement plan for the “transition supplemental” payment?

Yes, there will be a contribution at your current rate.

Will there be an impact on my IU TDA and IU Retirement Savings plans?

Employees contributing a % of pay will have no impact. Employees contributing a flat amount per pay period will now have that same flat amount deducted from 26 payroll payments, resulting in total annual contributions being more than double what they are now. These employees must go to One Start Benefit’s Self Service and change their contribution to a % of pay that will result in the amount of annual contributions they wish to make or contact their campus human resources office for assistance in changing their contribution rate.

What is the effect on my paid time off (PTO) accruals?

Employees will continue to accrue PTO at the same annual equivalent rate. Those annual rates will accrue on a bi-weekly schedule under the bi-weekly pay schedule. These accruals will be updated with the closing of each bi-weekly payroll and will be reflected in the employee’s PTO balances in the TIME system.

Bi-weekly accrual rates

Up to 60 months of IU service

Annual equivalent accrual	240 hours per year
Bi-weekly accrual	9.24 hours per pay period x 26 pay periods = 240 hours

On and after 60 months of IU service

Annual equivalent accrual	288 hours per year
Bi-weekly accrual	11.08 hours per pay period X 26 pay periods = 288 hours

Will the PTO that PAO/PAU staff earn for the month of August be prorated since the conversion occurs on August 23, 2009?

Campuses and departments will receive PTO worksheets for each PAO employee (except the 3 remaining PB) which do provide for a partial accrual for Aug 1 – 22. Those worksheets will go out the week after the July monthly payroll closes.

PAO staff members will begin earning at the BW rate effective 8/23/2009.

What do employees impacted by the change need to do?

Most of the work to ensure the smooth transition to the bi-weekly pay cycle will be done in the central UHRS and payroll offices. There will also be some work done by the departmental payroll processors.

Will I need to make any changes to my payroll deductions?

Employees may receive notification to consider changing their Federal or State tax withholding if they are identified as somebody who has a flat amount taken out. They may also need to consider changing their direct deposit allocations if a flat amount is being designated to one or more financial institutions. Other flat amount deductions may need to be changed as well: For example, the deduction to purchase US Savings Bonds. The central payroll office will identify those individuals potentially impacted by the transition and notify them to review and modify their elections. This notification will occur closer to the date of the transition.

When will medical, dental and other benefit deductions come out of my bi-weekly paychecks?

Employee deductions and contributions for our bi-weekly staff follow the below schedule:

The first pay date in the month includes the following benefit deductions:

- Medical and Dental deductions: pays for coverage during the last half of the prior month
- Supplemental Life, Personal Accident Insurance and Long Term Disability deductions: pays for coverage during the previous month
- Tax Deferred Annuity, IU Retirement Savings Plan, Tax Saver Health, Tax Saver Dependent Care and Medical Saving Plan contributions: made on every pay

The second pay date in the month includes the following benefit deductions:

- Medical and Dental deductions: pays for coverage during the first half of the current month
- Tax Deferred Annuity, IU Retirement Savings Plan, Tax Saver Health, Tax Saver Dependent Care and Medical Saving Plan contributions: made on every pay

The third pay date in the month (occurs twice a year) includes the following benefit deductions:

- Tax Deferred Annuity, IU Retirement Savings Plan, Tax Saver Health, Tax Saver Dependent Care and Medical Saving Plan contributions: made on every pay

When will general deductions come out of my bi-weekly paychecks?

The first pay date in the month includes the following general deductions:

- **Parking deduction - all campuses:** These normally come out of the first check of each month, however there will be a deduction for parking on the September 18, 2009 paycheck. This is because there will be no paycheck for PAO and PAU employees on September 4, 2009 to deduct parking from. Therefore, payroll will run a one-time deduction for this to be deducted from the September 18, 2009 paycheck.
- **Garnishments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **IU Foundation donations:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **Student Loan payments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **US Bond purchases:** These will be purchased at the amount currently specified unless you change your deduction amount. It will be taken on the first and second paycheck of each month.
- **United Way for all campuses except Bloomington:** These normally come out of the first check of each month, however there will be a deduction for parking on the September 18, 2009 paycheck. This is because there will be no paycheck for PAO and PAU employees on September 4, 2009 to deduct United Way from. Therefore, payroll will run a one-time deduction for this to be deducted from the September 18, 2009 paycheck.
- **United Way for Bloomington campus only:** These will be recalculated for a bi-weekly pay schedule and taken out of the first and second check of each month.
- **Southeast campus card:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **IUPUI Jagtag:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **Indianapolis childcare:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **Bloomington childcare:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **Bloomington Bursar payments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **Bloomington parking fines:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.

The second pay date in the month includes the following general deductions:

- **Garnishments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **IU Foundation donations:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **Student Loan payments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **US Bond purchases:** These will be purchased at the amount currently specified unless you change your deduction amount. It will be taken on the first and second paycheck of each month.
- **United Way for Bloomington campus only:** These will be recalculated for a bi-weekly pay schedule and taken out of the first and second check of each month.
- **Southeast campus card:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **IUPUI Jagtag:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **Indianapolis childcare:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.

- **Bloomington childcare:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **Bloomington Bursar payments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **Bloomington parking fines:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **Recreational sports deduction - all campuses**

The third pay date in the month (occurs twice a year) includes the following general deductions:

- **Garnishments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **IU Foundation donations:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **Student Loan payments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **Southeast campus card:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **IUPUI Jagtag:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **Indianapolis childcare:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **Bloomington childcare:** This is a one-time deduction entered based on what the agency submits to payroll. It will be deducted from each paycheck.
- **Bloomington Bursar payments:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.
- **Bloomington parking fines:** These will be recalculated for a bi-weekly pay schedule and taken out of each paycheck.

How will my Digital Communication and/or Internet Access Allowance payments be converted to the Bi-weekly Pay Cycle?

Due to the scheduled August 23, 2009 transition of PAO and PAU employees to the bi-weekly pay cycle, any ongoing Digital Communication and/or Internet Access Allowance payments current as of August 23, 2009 will end as of August 22, 2009. In order to continue the allowance, the department/campus will need to initiate an E-Doc after the monthly payroll closes on August 20, 2009, using the updated job record with an Effective Date of August 23, 2009. Provided the E-Doc is approved within the time frame for the bi-weekly pay period closing for August 23, 2009 through September 5, 2009, the employee will continue receiving Allowance payments with the September 18, 2009 paycheck. Future Digital Communication and/or Internet Access Allowance payments will be paid on the bi-weekly pay cycle and the pay period amount received will be calculated based upon pay period begin and end dates (26 pay periods in a fiscal or calendar year).

An example:

As a PAO or PAU – Monthly pay cycle - Total annual amount of \$600/12 months = \$50 per monthly pay period.

As a PAO or PAU – Bi-weekly pay cycle - Total annual amount of \$600/26 pay periods = \$23.07 per bi-weekly pay period.

Will there be ongoing communication?

Ongoing communication will be shared with impacted staff regarding the transition. Information will also be distributed to campus payroll and human resources offices and departmental payroll processors. If any questions arise that you need immediate assistance with, please contact FMS payroll. We are happy to help.

Please contact:

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