**PAYROLL PRIMER**

***An HKEA guide on payroll procedures from Jim Daniels – Part Deux***

September 7, 2017

This second half of the primer on payroll procedures will coordinate with today’s “regular” check. The first check of the school year was a wonderful “third check”. Today we have to pay the piper with the usual deductions associated with a “regular” check. At least today’s check was advanced in time! Few line items should be the same between the previous “third” check and today’s check. If the first check and today’s check are correct then you should be all set for the school year. The only changes that should be anticipated would be slight changes in withholding starting in 2018 as the withholding tables receive their annual federal and state review with possible revision.

The format of the primer will be as before. The headline box will contain the payroll statement abbreviation for a line item followed by a description of which teachers should see that line item on their check.

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| **abbreviation** | **teachers for whom that item is relevant**  |

Individual teachers can verify the accuracy of today’s check on a line by line basis with this document. Any issues that are spotted can be dealt with early in the school year. All entries have a dollar value for this check and a year to date column. The year to date is on a calendar year basis and covers from January 1, 2017 through today’s check.

Federal tax, state tax, and Medicare (if applicable) are deductions that by law are made from every check. Other deductions are from only the 20 “regular” checks regardless of whether you signed up for 22 or 26 payments. Those latter deductions are made from the two regular paychecks for the nine months of September through May and not from the “third” paycheck that has already occurred last week and not from the November 30, 2017 “third check”. Remember that a there will be three pay dates in May, but the last one on May 31, 2018 will function as the second regular pay date of June and have the usual “regular” deductions taken. That check and the check on June 14, 2018 will be the 19th and 20th “regular” checks. Teachers who select 26 payments will see these latter deductions at the usual level on their balloon check – not increased. The full pay date schedule is found at <http://www.rsd17.org/staff/documents/Payroll%20Schedules%202017-2018%20FY18%20Teachers.pdf>

Along the way you may learn a few things about the comings and goings of your salary that will prove useful in their own right. Those will be indicated by a wavy text border. Read about them even if you don’t currently have that deduction.

Legally, you should consider the content of this primer as general background information and not as endorsements by me or the HKEA of any mentioned institutions or financial procedures. You should consult your private financial advisor for information customized to your circumstances in all salary and financial matters. In fact, you should make your private financial advisor aware of the possible options outlined in this payroll primer for his/her further analysis and advice.

When questions arise about paychecks you should contact the district’s payroll specialist Amber White, Awhite@rsd17.org, and/or me at jfdaniels@comcast.net or 860-345-4912.

**In the Earnings section of the paycheck…**

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| **Longevity** | **Veteran teachers in this district** |

If you qualify for a longevity payment it should be identical to the amount listed in this section on the first paycheck of this school year dated August 31, 2017.

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| **Specific Teaching area (like Art Teacher Salaries)**  | **All teachers** |

This is your regular salary for being a teacher. It should be identical to the amount on the first paycheck of this school year.

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| **Lead Teacher BES, Dept Chair HKHS, etc.**  | **Teachers in leadership positions** |

These leadership stipends should be identical to the amount listed in this section on the first paycheck of this school year.

**In the Taxes section of the paycheck…**

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| **Connecticut State Withholding** | **All teachers** |

This is the deduction for Connecticut income tax withholding. Today’s deduction should be less than the first check’s deduction since many other deductions that start with this check are paid with “tax free” dollars or “tax deferred” dollars. The “tax free” deductions include the 1.25% retirement account, all the “Section 125” (Flexible Spending Account) plans for dependent care and medical reimbursement, and health care premiums. These would be listed in the deductions section and would be titled 1.25% Teacher Retire, FlexSpending Dependent, and FlexSpending Medical, Open Access Teacher, Open Access New Teacher, Open In Network Teacher, and Open In Network New Teacher. These are called “tax free” since these dollars of wage income are never taxed before they are transferred to or after they are processed by those various programs. “Tax deferred” items would not be taxable at this time. You will pay tax on these dollars many years from now in retirement when a dollar is worth less due to inflation. Furthermore, you or the receiving institution will have invested those dollars for many years. The tax deferred deductions would be for tax sheltered annuities (TSAs or 403(b) plans), 457 retirement plans, and the 6% teacher retirement account. This would be lines like 403B Metlife, 403B Equitable, 403B American, and 6% Teacher Retire. Note that *Roth* 403(b) deductions are made with *after* tax dollars and would be taxed now. Thus up to $50,000 of yearly income will not be currently taxed by the federal or state government. This will reduce your current tax liability to them and thus reduce your withholding on this and all “regular” checks. This tax deduction will appear on every regular check. Today’s tax withholding should be repeated in the same amount on future “regular” checks**.** Given the complex mix of possible helpful tax deferred and tax free deductions, no specific formula predicts how much of a decrease there should be in this withholding.

Note to 26 payment teachers: The gross pay on your balloon payment on June 14th will be five regular paychecks’ gross put together (the 22nd paycheck through the 26th paycheck). However the tax sheltered deductions will be just the same as a “regular” paycheck since they are spread over 20 paychecks – two checks in the months from September through May as well as the May 31st and June 14th check. Therefore your gross salary for the balloon check will be exactly five times the “regular” gross salary but the tax withholding will be *more than* five times since the tax sheltered deductions were done once not five times on that check. The final disposition of your 2017/2018 balloon check should reflect that.

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| **Federal Withholding Tax** | **All teachers** |

This is the deduction for federal income tax withholding. Beyond that see the comments for state income tax withholding. This deduction will appear on every check.

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| **Medicare – Employee Contrib** | **Only those teachers who are liable for Medicare – those who permanently started employment with this district after March 31, 1986.**  |

Due to the interaction of state and federal law Connecticut teachers hired after March 31, 1986 are liable for Medicare deductions and are thus possibly eligible for eventual Medicare coverage given ten years of personal Medicare contributions. The individual deduction should be 1.45%. Today’s deduction should be the same or less than the first check’s deduction since federal law allows our tax free, negotiated “Section 125” or Flexible Spending plans and health care premiums (if any) to not be liable for Medicare taxation. The “Section 125” deductions are for dependent care and medical reimbursement (that is not covered by the regular health care plan) and are not taxed for Medicare. To calculate your Medicare tax on this check take today’s total earnings listed at the top of the statement and subtract the listed deductions for dependent care (FlexSpending Dependent), medical reimbursement (FlexSpending Medical), and the health care premium (deductions starting with Open Access or Open In Network). Take 1.45% of the remaining dollars by multiplying by its decimal equivalent .0145. That should be the listed Medicare deduction on this check and should be accurate to within a penny due to rounding.

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| **Social Security – Employee Cont** | **All teachers**  |

Teachers should not have any Social Security taxation of their teaching salary, longevity, or leadership salaries. This is due to decades old Connecticut statutes. Other work for the district that is not a salary on which an eventual retirement pension will be based will be Social Security taxable. Therefore, there should be no Social Security taxation listed in today’s check, but the calendar year total may show some taxation due to other work done earlier in calendar year 2016.

**In the Deductions section of the paycheck…**

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| **1.25 Teachers Retire** | **All teachers** |

This deduction goes to the Connecticut Teachers Retirement Board (CT-TRB) to fund a partial rebate of medical costs for retired teachers. $110 per month is the current value for the retired teacher. The same amount is granted for a spouse. Medicare eligible teachers (through sufficient Medicare eligible teaching employment, private employment, or through a spouse) over 65 would use this to help purchase a state selected Stirling and Stirling “Medigap” rider to supplement basic Medicare. The fund would be used differently for teachers who are bridging from retirement until age 65 and Medicare. Here the funds would pay the same dollar value directly to the school district to offset approximately 10% of the cost of remaining on the district’s health care policy. The remainder would be paid by the retired teacher or by district initiated early retirement incentive programs. Retired teachers over 65 who do not qualify for Medicare receive a double subsidy from this fund if they are enrolled in the district’s health care programs.

This 1.25% deduction is taken of the full teachers salary (regular earnings plus longevity plus lead/etc.) – tax sheltered deductions do not apply here. Oddly enough the correct deduction will not be 1.25% of a regular check’s total gross salary – it will be 1.375% of a regular check for teachers with 22 payments and 1.625% of a regular check for teachers with 26 payments. That would translate into multiplying the total gross salary by .01375 and .01625 respectively. This is because no retirement funds were taken from the earlier “third” check of August 31st nor will they be taken from the additional “third” check to occur later this school year. Therefore higher percentages must be taken of 20 “regular” checks so that at the end of the school year the correct amount has been deducted. Teachers with 26 payments have a smaller salary per check and will have the same dollar value deducted from their balloon check. Therefore their percentages must be even higher to deduct the same total dollars by the end of the school year.

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| **6% Teachers Retire** | **All teachers** |

This 6% deduction is the teacher’s contribution towards a retirement pension. The CEA recently mailed you a comprehensive tabloid guide to retirement containing valuable data. In addition they sponsor over ten retirement workshops throughout the state with their retirement staff. The closest one will be in Portland on October 26th. The schedule and registration information is at <http://www.cea.org/retirementworkshops/>. The state government also contributes significant money toward the eventual pension. A veteran teacher with thirty five years of experience may have amassed through principal and interest only enough money for three to five years of pension. All pension payouts beyond those years will be 100% state government money.

The percentage is taken of the full salary – tax sheltered deductions do not apply here. As with the 1.25% account a different, mathematically correct percentage is used to calculate the deduction from the twenty “regular” checks. Teachers with 22 payments should multiply their total gross earnings by .066 while teachers with 26 payments should multiply their total gross earnings by .078 to calculate the correct deduction for all “regular” checks. Longevity and leadership folks should include those pays in that calculation and expect the full deduction to appear just once on their regular payroll statement.

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| **CEA Dues** | **All teachers**  |

This pays for representation of teachers individually at the district level and collectively in Hartford. It is scary to think of where teachers would be if state politics were allowed to savage the status of teachers. It is scary to think of where teachers would be if they did not have access to excellent professional and legal representation in matters that arise from their local employment. Various discounts are available through membership and can be viewed at <http://www.cea.org/memberBenefits/>. A $24.95 deduction will be made on all “regular” checks to pay for these benefits.

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| **Disability Insurance** | **Only those teachers who have opted for a voluntary, private disability program.**  |

This would appear on every “regular” check. The TRB system does provide for some disability insurance. Those benefits can be reviewed at <http://www.ct.gov/trb/cwp/view.asp?a=1579&Q=272088&trbPNavCtr=|#41330>. Teachers, especially younger teachers, with significant current financial responsibilities, should review those benefits and seek advice from financial advisors about their options for greater coverage that might be seen here.

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| **Open Access Teacher Open In Network Teacher** **Open Access New Teacher** **Open In Network New Teacher**  | **Teachers who are enrolled in the district’s health care programs.** |

**Premium Details** Health care premium deductions will occur on all 20 regular checks. This deduction funds a portion of the total health care premium with the district paying the remainder. Most teachers are on the Cigna PPO, listed as Open Access Teacher or Open Access New Teacher, and pay 20% of the total cost. Teachers on the Cigna HMO, listed as Open In Network Teacher or Open In Network New Teacher, also pay 20% of the different total cost of that different program. Larger deductions are in place for this school year due to a negotiated premium co-pay increase and a larger base cost. That increase will be mitigated somewhat because these deductions are made pretax.

As published by the Business Office the correct regular check deductions for teachers continuing their employment at HK from last school year are:

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|  | **Individual teacher** | **Teacher + 1 dependent** | **Family Plan** |
| **Open Access Teacher**  |  $ 103.68  |  $ 217.73  |  $ 279.94  |
| **Open In Network Teacher** | $ 108.75 | $ 228.37 | $ 293.62 |

Teachers who started at HK this school year and signed up for the district’s health care plans should see deductions published by the Business Office as follows:

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|  | Individual teacher | Teacher + 1 dependent | Family Plan |
| **Open Access New Teacher**  | $ 86.40 | $ 181.44 | $ 233.28 |
| **Open In Network New Teacher** | $ 90.63 | $ 190.31 | $ 244.69 |

These latter deductions are less than continuing teacher deductions because a shorter period of coverage is paid by an identical number of deductions. Why? Technically the health care “year” for continuing employees runs from July 1 to June 30th. Newly hired teachers’ health care does not start until the start of the school year. Therefore their coverage is only 10 months of their first year here. However they have 20 deduction periods just like a continuing teacher. Thus new teachers’ deductions should be 10/12ths which reduces to 5/6ths of a continuing teacher’s deduction. This deduction will reappear at the same level on all future “regular” checks. The dollar value on this line also allows you to check that you are signed up for the correct number of people for individual, teacher +1, or family coverage.

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| **403B Metlife, 403B Equitable, 403B Fidelity, 403B American, etc.** | **Only those teachers who have signed up for a tax sheltered annuity (TSA, 403(b) plan) or for a Roth 403(b)** |

This would appear on every “regular” check.

For the purposes of this primer “403(b)” will be used to describe the long lasting tax sheltered annuities and programs that have been available for years. See the section below for the related but different Roth 403(b) plans.

Tax sheltered annuities are one of the few perks of working for a nonprofit organization such as the public schools. They are the nonprofit version of 401(k) accounts in the private sector. Savings are placed into the account before they are taxed then grow (hopefully) in teacher selected mutual funds. The funds are taxed when withdrawn in retirement. Different vendors are available with varying levels of “hand holding”. Higher levels of hand holding by advisors will generally prompt higher fees. The district’s 403(b) is administered through the OMNI group, <https://www.omni403b.com/Participants.aspx>. Our organization is “Regional School District #17”. At this site you can see the service providers possible in our district, see their contact information, review forms, etc.

**Roth 403(b)** As a part of the overall 403(b) program teachers may elect a Roth version of a 403(b). Like a regular 403(b) plan a Roth 403(b) plan has tax advantages, but they play out in a different manner. The contributions are made after taxes, but all the future growth in value is never taxable. This has appeal for teachers who think that their tax rates will be higher in the future. Both programs can be started at any time in the school year.

The total of both 403(b) plans cannot exceed $18,000 during calendar year 2017. One report has that changing to $18,500 for 2018. Check with your advisor in a month or two. Teachers over 50 can currently contribute an additional $6,000 per year. Additionally, teachers who have 15 or more years of service with our district can contribute slightly higher amounts as well (albeit through a complex procedure). A brief introduction to 403(b) plans available to HK teachers can be found at <http://www.rsd17.org/staff/documents/201617403b%20notice.pdf>. Contact information for each of the plans is found at <http://www.rsd17.org/staff/documents/403b%20Vendors.pdf>.

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| **457 Plan** | **Only those teachers who have signed up for a tax sheltered 457 Plan** |

This would appear on every “regular” check.

457 plans function much like a regular 403(b) tax sheltered annuity/account by allowing contributed dollars to not be taxed at this time, but rather to be taxed along with their earnings upon withdrawal. The 457 plan available is actually the State of Connecticut plan. The CEA has changed its endorsement from a specific 403(b) plan to this 457 plan. This was the result of the significantly lower fees charged by this 457 plan. Money in this plan can be withdrawn (and therefore taxed) at termination of service. For most folks that will be at retirement or later. However, another advantage of the 457 plan over a 403(b) plan is for younger teachers who are planning the start of a family with the further plan of going from two incomes to one income for an extended time following the local teacher’s resignation. Money could be put into the plan during the flush two income years and pulled back out in the year of termination of service if it was primarily a one income year. A one income year might have a lower marginal tax rate. Planning with a tax professional is important here as in all other financial matters mentioned in this Primer.

457 plans have essentially the same yearly maximums as 403(b) plans. It is important to note that 403(b)/Roth 403(b) plans and 457 plans have their own “buckets”. Thus a veteran teacher nearing retirement can contribute to both plans each currently having their own $24,000 total cap for a teacher over 50 years old. Moreover, there are complicated though beneficial enhanced 457 limits for teachers within three years of normal retirement age. Obviously you need to be able to spare those sizable sums from your monthly expenses. But after the kids are through college and they are married off……

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| **FlexSpending Medical**  | **Only those teachers who have a Section 125 tax free deduction for uncovered health care costs or for dependent care expenses.**  |

A Flexible Spending Account (FSA) is a voluntary program that uses pretax dollars to pay for medical expenses that are not covered or only partially covered by our regular health care program. Most commonly these are prescription and office visit co-payments and the portion of braces, other dental work, and eyeglasses that health care insurance does not pay. Additionally, some over the counter items also qualify. Even more exotic items such as service animals qualify. You may schedule the medical treatment on or after July 1 of the school year without regard to the then current balance in the account. The sign-up for this program is in the late spring at the same time as health care renewal. Careful planning is a must because per federal law unexpended funds at the end of the annual period revert to the district. It’s “use it or lose it”. With careful planning this can save you 18-33% percent of the excess cost due to reduced federal and state tax as well as possibly reduced Medicare deductions. The variation in percentage is due to your family’s marginal tax bracket. This deduction will be made from all 20 “regular” checks and will thus be 5% of your personally specified total for the school year. Continuing this school year is the expanded coverage period. Now the services can be rendered for 2.5 months past June 30th. Therefore, deductions made during this school year can be used for claims on medical procedures that occur from July 1, 2018 through the middle of September, 2018. This mitigates the “use it or lose it” issue. A separate, different form is used for claims made in the 2.5 month grace period. There is no fee for this service. It was eliminated through the good efforts of the HK business office. A general introduction to our district’s plan is found at <http://www.rsd17.org/staff/documents/Understanding%20Flex%20Spending.pdf>.

The district’s program is administered by Advanced Benefits Strategies (ABS). Their list of eligible items can be seen at <http://www.rsd17.org/staff/documents/Flex%20Spending%20Worksheet.pdf>. Additionally you can review an even more comprehensive list at

<https://www.payflex.com/individuals/common-eligible-expenses/health-care>. Note that this list covers a number of programs. At times the commentary may indicate the eligibility or lack thereof as it varies from program to program. You want to confine your attention to those listed as eligible for a FSA. If you find an item on this list that is not on the Advanced Benefits list you should check with Advanced Benefits about its coverage. Our district’s rep at Advanced Benefits is Rosanne O’Neil rosanne@abs125.com, (877) 732-8125 ext. 413.

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| **FlexSpending Dependent,**  | **Only those teachers who have a Section 125 tax free deduction for dependent care**  |

A Dependent Flexible Spending Account (FSA) functions like its medical cousin, but is for certain expenses for dependents – notably for your child’s day care at a licensed provider. It can also be used for adult day care under certain circumstances and for a child’s day camp during vacation and holiday periods. Contact information is the same as for the medical reimbursement plan as found in the previous paragraph.

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| **HKEA Dues** | **All teachers** |

The yearly HKEA dues are once again unchanged and your local organization’s many efforts. Split over 20 checks this should be a per check deduction of $5.50. This will appear on every “regular” check

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| **NEA Dues** | **All teachers**  |

This pays for the collective representation of teachers in Washington. It is scary to think of where teachers would be if national politics were allowed to savage the status of teachers. Various discounts are available through membership and can be reviewed at <http://www.neamb.com/>. A $9.45 deduction will be made on all “regular” checks to pay for these benefits.

**In the Direct Deposits section of the paystub …**

The net pay of your check will be seen here. Various financial institutions will be listed depending upon your own selection.

**In the Check Summary section of the paystub…**

This will summarize the check’s ebb and flow of money. Each of the sections (Earnings, Taxes, and Deductions) will be listed. The net or “take home” pay will be then calculated and that amount will be directly deposited in the financial institution you have selected.

Well that’s it for Part Deux of the Paycheck Primer. Any issues should be addressed to the district’s payroll specialist Amber White, Awhite@rsd17.org, and/or me at jfdaniels@comcast.net or 860-345-4912.

**Final Thoughts**

**When changes occur – birth of child, pregnancy leaves, marriage, etc.** If the first two checks of the 2017/2018 school year are correct then future checks should match either the “regular” or “third” check amounts... The only exception would be slight adjustments due to inflation of tax withholding starting in January of 2018. However, midstream changes are a tricky area and require wholesale recalculations of salaries and deductions. When a paycheck has a change in your salary or deductions it should be accompanied by a written explanation of the associated calculations as determined by the Central Office. If they are not then those calculations and explanations should be requested of the district’s payroll specialist Amber White, Awhite@rsd17.org. Such changes that deserve careful scrutiny would occur if you change the number of family members on health care, come back after unpaid leave, or have other substantial alterations to your status. Questions that arise should be directed to Amber White and/or me at jfdaniels@comcast.net or 860-345-4912.

Save your payroll statements!