

# TMRS PAYROLL REFERENCE GUIDE

What you need to know to file your city's  
Monthly Payroll Report (payroll)

# IMPORTANT POINTS

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- The most important points to remember from this guide are:
  - The definition of “Employee”
  - The definition of “Compensation”
  - What you need to do to file the Monthly Payroll Report (payroll) correctly
  - What our statute, the TMRS Act, covers

# Reporting the Payroll

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- ❑ A member of your city's staff, usually in the payroll or finance department, submits the city's Monthly Payroll Report to TMRS every month
- ❑ Monthly Payroll Report processing consists of:
  - ❑ Reporting individual employee gross compensation and retirement contributions (Employee Contributions Report – [TMRS-0002](#))\*
  - ❑ Summarizing employee contributions and city contributions (Summary of Monthly Payroll Report – [TMRS-0003](#))
  - ❑ Submitting payment to TMRS

*\* The TMRS-0002 is only necessary if you are filing payroll manually; if filing electronically, your city submits the listing as a data file.*

# Statutory Requirements

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- ❑ The [TMRS Act](#) requires cities to deduct member contributions from the gross compensation of each TMRS-eligible employee.
- ❑ Your city must:
  - ❑ Determine eligibility for TMRS membership
  - ❑ Make deductions from each member's compensation
  - ❑ Transmit a certified copy of the Monthly Payroll Report and pay the deductions to TMRS on a monthly basis by the 15<sup>th</sup> day of the month after the month for which the deductions were made

# TMRS Definition of Employee

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- The TMRS Act defines “employee” as:
  - “...a person, including a person serving a period of probationary employment, who receives compensation from and is certified by a municipality as being **regularly engaged** in the performance of duties of: ...an appointive office or position that **normally** requires services from the person for not less than 1,000 hours a year...”  
(emphasis added)

**This is often referred to as “The TMRS 1,000 Hour Rule”**

# Determining Member Eligibility

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- ❑ The TMRS Act states that a person who is not a member becomes a member of TMRS if “...after August 31, 1987, the person becomes an **employee** of a participating department”
- ❑ Accordingly, people who meet the TMRS definition of “**employee**” become members of TMRS on the date they are employed
- ❑ See Section 852.101 of the [TMRS Act](#) (p. 5 of PDF) for other general membership requirements

# *Are Part-time Employees Eligible?*

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- ❑ There are no statutory definitions for “full-time” or “part-time” employees
- ❑ Eligibility for membership is based on the number of hours a person is expected to regularly work over the course of one year
- ❑ Cities should evaluate all paid positions to determine if the positions meet the “TMRS 1,000 hour rule”
- ❑ If employee doesn’t meet this eligibility requirement but later moves into an eligible position, he/she becomes a member of TMRS on the eligibility date
- ❑ The determination should be made based on the position and not the person

# Applying the “TMRS 1,000 Hour Rule”

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- ❑ If the position meets the TMRS 1,000 hour rule, any person hired to fill that position **MUST** be enrolled in TMRS
- ❑ Employees hired to fill these positions do not have the option to decline participation
- ❑ Cities should monitor or re-evaluate all city positions periodically to determine if the TMRS 1,000 hour rule is being met
- ❑ It is the city’s responsibility to keep current, accurate records of TMRS-eligible employees

# Eligibility Example

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- Q.** *The city budgets 1,600 hours for two part-time employees. Are they TMRS eligible?*
- A.** If the work is normally and regularly spread equally between the two positions, they would **not** be eligible because their total hours would be 800 each. However, if the work normally is spread unevenly, and one of the positions regularly requires services of not less than 1,000 hours annually, then that employee needs to be enrolled in TMRS and the other would not be enrolled.

# Determining TMRS Deductions

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- Every city in TMRS elects the rate of member contributions for the employees at 5, 6, or 7%\*
- The employee contribution rate for your city is the same for every member
- Once your city has determined that an employee is eligible for TMRS membership, your city is ***required*** to deduct the member contribution from the employee's gross **compensation** for each payroll period

\* A few cities were grandfathered at a 3% employee deposit rate, but that rate is no longer an option.

# TMRS Definition of “Compensation”

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- The TMRS Act defines “compensation” as:
  - “...the **sum** of payments made to an employee for performance of personal services...” (emphasis added)
- The types of payments considered to be “compensation” include:
  - “...base pay, overtime, vacation, and sick leave (including payments for unused vacation and sick leave), longevity pay, certification pay, severance pay, employer pickup of employee contributions to TMRS, “cafeteria plan” benefits, and almost any other form of payment made to an employee, other than direct expense reimbursement”\*

\* Based on prior TMRS legal opinions

# Applying the Employee Contribution Rate to Gross Compensation

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- ❑ The employee contribution rate is applied to all payments from your city for the performance of services (except direct expense reimbursements)
- ❑ The amount deducted from the employee's compensation is calculated based on the gross compensation paid by your city to the employee, including, but not limited to:
  - ❑ Overtime pay, car allowances, uniform allowances, sick leave, and vacation pay
  - ❑ Amounts deducted from an employee's paycheck that reduce taxable wages, such as amounts paid to other plans (e.g., deferred compensation plans (IRC Section 457))

# TMRS Deduction Example

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If an employee is paid the following:

\$1,600.00	Gross compensation at \$20/hr for 80 hrs
\$112.00	TMRS deduction *
\$80.00	FICA/taxes
\$50.00	457 plan voluntary deduction
\$20.00	Life insurance deduction
<u>\$200.00</u>	Health insurance deduction
\$1,138.00	Net payment issued to employee

**\* Using a 7% employee contribution rate, the TMRS deduction is based on the gross compensation of \$1,600, before all other deductions are made ( $\$1,600 \times .07 = \$112$ )**

# Compensation Question

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**Q:** *Are clothing allowances, car allowances, drag-down pay (unused vacation and sick leave) considered compensation for TMRS purposes?*

**A:** Yes. In general, all payments to the employee are considered compensation **except** “direct expense reimbursements”

**RULE OF THUMB:** If it is taxable, it is “compensation”

# How the City's Contribution Rate (City Rate) is Determined

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- ❑ The TMRS actuary performs an annual “valuation” of your city’s plan to determine the “City Rate” — the amount your city must pay for the retirement benefits it has selected
- ❑ Each year, the annual valuation adjusts the City Rate, up or down, based on any plan changes made by your city as well as “actuarial experience,” including retirements and withdrawals
- ❑ Your city’s actuarial liability is amortized over a fixed 25- or 30-year period

**CITY CONTRIBUTION RATES ARE SENT IN THE ANNUAL RATE LETTERS, WHICH ARE ALSO POSTED [HERE](#) ON THE TMRS WEBSITE.**

# Applying Your City Rate to Gross Compensation

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- After processing the payroll information for each employee who is a member, your city must calculate the city's contribution based on the total gross compensation for all members and the annual city contribution rate (City Rate) provided by TMRS
- *Example:* Assuming total gross compensation of \$100,000 is reported on the Monthly Payroll Report:  
    \$12,000 City's contribution, assuming City Rate of 12%  
      \$7,000 Total member contributions, assuming 7%  
    \$19,000 Total due to TMRS

*View the Payroll Forms tutorial for detailed instructions*

# Submitting the Payroll

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- Submit the entire Monthly Payroll Report (necessary forms and payment) to TMRS **no later than the 15<sup>th</sup> day of the month** after the month for which the deductions are made
  - For example, January payroll is reported in February; August is reported in September, etc.
- TMRS encourages all cities to file electronically instead of by mail. See the TMRS [Electronic Payroll Guide](#) for details
- A summary on reporting payroll is also available on the TMRS website under Cities → [“How Do I...”](#) pulldown menu

# Extra Payments and Corrections

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- ❑ If your city wishes to pay more than its annually required contribution, you will need to submit a Remittance of Lump Sum City Contributions form ([TMRS-3ADD](#)) separately from your monthly payroll report
- ❑ If your city wishes to correct a previously reported payroll error, you will need to submit a separate supplemental payroll report (check the box on the TMRS-0003 form)
- ❑ **Contact the TMRS Call Center (800-924-8677) for details on how to process extra payments and corrections**

# Next Part of Training

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- Click back to the Online Payroll Training page:

[Back to web page](#)

- Then proceed to the next document on the list, the “How to Fill Out Payroll Forms” tutorial