27th Pay Date
Proposed Process for Addressing Additional Expense

1. The next fiscal year in which there will be a 27th pay date for employees is FY21

2. There will be no change in the timing of employee paychecks

3. Policy changes will be implemented to allow for a change in the calculation of paychecks for salaried employees in the fiscal year in which the 27th pay date hits (communication will occur ASAP):

   - the appointment year will be changed to be July 1 to June 30 for all employees
   - for all employees for which it is applicable, in the year of the 27th pay date, the annual salary will be divided by 27 rather than 26
   - the Office of Human Resources will develop a policy response related to standards or guidelines in how agreements related to summer salary are developed (e.g. based on an annualized salary or per pay-check amount) for b base faculty paid on a nine month cycle
   - the goal is not to advantage or disadvantage any employee, but to pay salaried individuals their annual salary (no more, no less) each fiscal year

4. For the expenditures associated with hourly employees pay, there will be a change in the annual departmental expense beginning with FY14:

   - Sponsored funds are excluded from these changes – they essentially operate in the way being recommended for nonsponsored funds already.
   - Departmental expense will be changed to reflect the actual number of days worked in a fiscal year. Currently, due to the way the pay dates hit in the calendar, in most years, departments pay for 260 days of work, even though employees work 261 or 262 days per year. Employees get paid for every hour worked, but because of the pay calendar, the expense that hits the department does not line-up with hours/days worked by fiscal year. This is what causes the additional expense of an extra 10 days (one pay period) every 11 years when the pay calendar forces a catch up.
   - Since the timing of employee pay will not change (and therefore the true University expense by fiscal year will not change), the additional day or two of pay to be expensed by departments every year will need to accrue at the institutional level to offset the paycheck expense of that 27th pay date in FY21.
   - The goal of the new methodology will be to eliminate the large departmental expense of the 27th pay date in FY21 by spreading it across the intervening years. The expense transactions of that pay date in FY21 will be offset by the accrual at the institutional level that has built up through the recording of one extra day or two of payroll expense every year.

5. The proposed methodology for the "extra day or two" expense at the departmental level is as follows:

   - In October of each year, central will calculate the cost of 1/10th or 2/10ths of the 10th pay period (depending on the year) for hourly employees only **by RRC, fund and deptID**. This pay period is proposed because it lines up with the data point used for headcount and other employee related counts for the budget model, surveys, etc.

- The calculation will include salary and applicable fringe.
- The amount calculated will then actually be charged the following year as an additional salary and fringe expense. The one year lag will allow for accurate budget planning.
- The expense will be recorded in each chart string that held the actual salaries in the prior year - at the fund/deptid/program level. (This could lead to budget checking errors and unintentional deficit spending though if chart strings are no longer valid, so clean up may be necessary.) It is necessary to record the expense in the appropriate functions, which is the reason for processing the transaction at the original program level.
- Two new expense accounts will be created – one for "27th pay date accrued salary" and one for "27th pay date accrued fringe". They will both be expense accounts, included in "total expenditures" on reports. (The other side of the accounting entry will be to a new liability account in a central chart string.)
- In the year of the 27th pay date, that pay date expense will first be recorded in the general ledger in the same way that every other payroll is recorded – the same distributions will apply. Then, within the same accounting period, central will process a transaction that will offset that final pay date expense at the fund/deptid/program level, consistent with the funds accrued at the central level through the annual transactions described above.
- No RRC would be allowed to opt out of this methodology. For those rare instances in which some form of this is already taking place, we will work to arrive at an agreed on transition and plan to make the change to the standard methodology.

6. In FY21 when the 27th pay date occurs, the amount accrued in prior years from the methodology under #5 will not exactly equal the cost of the 27th pay date for hourly employees by RRC and by fund. The goal is to make them as close to equal as possible, but due to a three-year delay in implementing this in the normal 11 year cycle, inflationary pay increases, changes in fringe benefits, and funding shifts, it is highly likely they will not exactly equal – particularly this first 11-year cycle.

   - Central will monitor and document the annual charge by RRC, fund, deptID and program, and will be able to compare the total over the years to the final expense in those same categories in FY21.
   - The total accrual will be monitored each year and modeled against projections of cost in FY21 to determine if mid-course adjustments should be made to the annual charge.
   - Alternative nonrecurring fund sources could be planned to address any gap in the amount accrued and the final expense.