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OF SCIENCE AND TECHNOLOGY

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Date: August 1, 2019

To: Faculty and Staff

From: Tim Ashley, Interim Vice President of Payroll, Benefits, and Tax

Subject: Change in Payroll Methodology for Defined Contribution Plan

This communication is intended for faculty and staff who were hired after August 1, 2014 or as a result of recent eligibility changes, and who made an election to participate in the University's Defined Contribution (DC) Plan with TIAA or AIG (VALIC).

As you may recall, the DC Plan provisions require that during the first five years, or 60 months of your participation in the Plan, the first $4,800 of your annual includible compensation receives a slightly lower contribution rate application, which is 3 1/3% and 6 2/3% for the employee and employer, respectively. The remaining includible compensation receives the full 5% and 10% contribution rate application.

Since the implementation of this Regent-wide policy in July, 1962, the methodology has been to apply the $4,800 evenly across the number of budgeted pay periods for each participants for 60 months. For example, Faculty on a 9-Month pay arrangement see the first $533.33 ($266.67 in May and August) of each monthly pay at the lower rate and the remaining at the full rate, Professional and Scientific employees would see $400.00 of each monthly pay at the lower rate and the remaining at the full rate. At the conclusion of the 60 months, all includible compensation begins to use the full 5% and 10%.

Beginning July 1, 2019, this approach will change to ensure better compliance and accuracy with the policy. ***Beginning on July 1, 2019, the application of the policy will no longer be done evenly across your budgeted pay periods, rather it will be done annually on a calendar year***

basis beginning in January. This means that the first full $4,800 of includible compensation, beginning in January will be used to determine the lower contribution.

If you were hired on or after August 1, 2014, there was an adjustment applied to your May and/or June payroll deductions. The adjustment represented the amount needed to complete the calculation for the additional months needed for the year of hire (if hired between February and December) ***and*** the additional 6 months required for the remainder of 2019.

The net effect of the adjustment was to reduce the amount of the TIAA or AIG contribution in May and/or June, which would result in a higher net pay. Beginning with your first pay check in Workday (July 31st), the amount of contribution will be the full 5%, which will leave the appearance of a smaller check. The following is an example of how this was applied during this initial transitional period:

Employee hired on August 1, 2018 (5 pay periods) and paid $6,000 in each month. For each of those first 5 months, the first $400.00 was subject to the lower 3.33% contribution and the remaining $5,600 was subject to the full 5% contribution. Due to the programming change in Workday, the remaining 7 months of $400 lower contribution is lost unless an adjustment is completed in May and/or June to capture the remaining lower percentage required. The applicable adjustment is the difference between the full 5% and the lower 3.33%, or 1.67% applied to the remaining 7 months of $400, or $2,800. This adjustment is a reduction in contribution of $46.76 (rounding may occur in actual results).

Then, because in 2019, the accumulated wages from our legacy system from January through June will exceed $4,800 (with a limited number of exceptions for May and June hires), an additional adjustment was needed to account for the remaining July through December period. Therefore, based on new application, since accumulated wages will exceed $4,800, the July payroll process will begin applying the full 5% contribution, which is the result you are now seeing in your July payroll. In reality, because only 1/2 of the $4,800, or $2,400 was used to calculate the lower percentage in the legacy payroll, an adjustment was applied on the May or June payroll to capture the lower percentage on the final $2,400 for 2019. Again, the adjustment is calculated by using the difference between the full 5% and the lower 3 1/3%, or 1.66% of $2,400, or $40.00 (rounding may occur in actual results).

Key points to remember:

- Only the methodology is changing in the timing/application of the "first $4,800", which is subject to the lower 3 1/3% contribution. The overall contributions during those first 5 years is the same, i.e., you are not losing or gaining any contributions to your TIAA/AIG account.
- The adjustment calculations may be slightly different than the example above based on hire date, missed payrolls, etc. The methodology change actually improves the overall compliance with the requirement because it is based on accumulated wages, not on payroll periods.
- Because of the amount of the overall adjustment needed for some employees, multiple pay periods may have been used to complete the total transition.

If you would like further detail on how this was calculated specifically for you, please contact us at fbac@iastate.edu.