

MEMORANDUM

TO: Chief Financial Officer

FROM: Christopher Townes
Director of TRS Benefits

DATE October 25, 2021

SUBJECT: Contributions on Housing Allowances and Other Expenses

The purpose of this memorandum is to update and clarify the eligibility of certain payments to employees for inclusion in earnable compensation for retirement purposes, subject to TRS contributions. Generally, the salary paid to an employee is the only earnable compensation that is subject to TRS contributions. On March 10, 2020, the TRS Board adopted a policy that continues to permit the value of housing provided by an employer or a housing allowance paid in lieu of housing to be included in earnable compensation, subject to TRS contributions. To qualify as earnable compensation, the value of the housing or payments for housing allowances must be paid monthly or annually, must be consistent in value, is a finite amount in a written contract, and must be limited to the housing allowance limit as set by Alabama Department of Education. Additionally, the housing or housing allowance paid in lieu of housing must be consistently provided by the employer for the specific position, regardless of who holds the position.

Other items that may be included as earnable compensation, subject to TRS contributions are:

- Employer payments on behalf of its employee to a deferred compensation plan such as RSA-1. While employer payments to RSA-1 on behalf of an employee are permitted, the effect on the employee's Teachers' Retirement System pension benefit will be limited to the maximum annual contribution allowed under IRS Code Section 457. The 2021 calendar year limit is \$19,500 for employees under age 50 and \$26,000 for employees age 50 and older.

- Payments for certain bonuses provided the bonus is based upon performance-based objective criteria, is a finite amount in a written contract, and does not exceed 120% (for Tier 1) or 125% (for Tier 2) of the employee's annual base compensation; and
- Expense allowances provided the allowance is a finite amount in a written contract, not repayable to the employer, reported on the employee's W-2, and is not provided for payment of any ineligible expenses.

Payments that are not eligible to be included in earnable compensation subject to TRS contributions are:

- Signing bonuses;
- Lump sum payments for accumulated sick, annual, vacation, or personal leave;
- Vehicle allowances;
- Mileage reimbursement;
- Moving allowances or payment of moving expenses;
- Payments for health insurance premiums or similar expenses;
- Payments for organization or membership dues;
- Payments for conference attendance; and
- Any other expense or payment related to or required for the performance of job duties.

TRS staff retains the discretion to determine whether a payment is includable in earnable compensation, subject to TRS contributions. If you have questions relating to the eligibility of a particular type of payment for retirement contributions, please contact our office for specific guidance.

If your organization is correctly contributing based on the guidelines contained in this memorandum, no further action is required. If your organization has been contributing on any ineligible items, please provide TRS with a listing of those members and payments so that TRS may refund employee and employer contributions and adjust the member's account.