New Academic Year (AY) Pay Schedule  
(Effective August 16, 2010)

Frequently Asked Questions (FAQs)

General

1. **What is the change and who is affected?**

   The University is changing the pay schedule for faculty and academic staff who have academic year (AY) appointments from 12 monthly paychecks to 10 monthly checks at the end of each month that is part of the duty period (August 16 through May 15).

   Reasons for the change are as follows:

   A. Federal tax law requires income to be recognized and reported as taxable at the time wages/salaries are earned. An exception to the law is described in an IRS interim ruling (IRS ruling 2008-62), but the exception would not cover all MSU employees. Paying a nine-month salary over a twelve-month period that spans two tax (calendar) years would create a tax liability for many MSU employees in the first year for income earned in that year but not paid until the next year. The planned change in practice will ensure compliance with federal tax law and should help AY appointees to avoid a possible tax liability.

   B. Faculty and academic staff on AY appointments should be paid when they earn the pay rather than receiving part later.

   C. This change will simplify grant accounting for AY faculty and academic staff who are paid on federal projects and will be consistent with federal regulations and effort reporting.

   D. The MSU Enterprise Business Systems Project (EBSP) will replace and upgrade the existing financial, human resources and payroll systems across the university. EBSP provides an opportunity to review and benchmark our business practices and to upgrade, improve and streamline processes to serve faculty, staff and students more effectively and comply with legal and contract requirements more efficiently. The implementation of the new EBSP systems will take place only a few months after our new payroll practice goes into effect, making this the ideal time to make a change.

   E. The change will simplify appointment processing and subsequent changes of status for AY faculty/academic staff. It will provide clarity and reduce confusion in understanding AY pay.

2. **When will the change be effective?**

   The new pay schedule will be implemented at the beginning of the 2010-11 academic year, i.e., on August 16, 2010, for faculty/academic staff appointed on an academic year basis.

3. **I currently hold a 12-month (annual) appointment. Will this change affect my pay schedule?**

   No. The change is applicable to academic year (9 month) appointments only.
4. I’m paid on soft money. Will this change apply to my pay schedule?

Yes, if you have an academic year (9-month) appointment. The source of funding for your salary is irrelevant.

5. I have an academic year appointment (9-month) and am on an H1-B, J-1, O-1, TN or E-3 visa. Will the change in pay schedule affect my visa status?

No. While you have a 9-month duty period (August 16 – May 15), AY appointees are MSU employees for the full year (August 16 – August 15) and are covered by benefits and applicable policies for the full year. A special provision in immigration law accommodates educational institutions that have a standard practice of paying faculty/academic staff on an academic year basis, i.e., over the duty period.

6. Are there any options to continue to receive a paycheck over 12 months?

MSU worked with the MSU Federal Credit Union (MSUFCU) to establish a voluntary savings/distribution program at MSUFCU that will enable AY appointees to equalize salary payments over 12 months. See below for details about MSUFCU programs and services. You are also welcome to explore and implement solutions on an individual basis with your preferred financial institution. Please consult your tax advisor about the effect such a program may have on your taxes.

7. Does the new pay schedule imply a change in current appointment contracts or salary rates?

The new pay schedule will not cause a change to appointment contracts or salary rates for faculty/academic staff; the change relates only to the pay schedule. Faculty/academic staff with AY appointments will have the same duty period (August 16 - May 15) as they do today and will receive the same total amount of pay over the course of the duty period as they receive today over 12 months. AY appointees are MSU employees for the full year (August 16 – August 15) and will be covered by benefits and applicable policies for the full year.

8. Is there any effect on policies such as Outside Work for Pay, Development of Copyrighted Materials, Faculty Conflicts of Interest, etc.?

No. The change to pay AY faculty/academic staff over the duty period affects only the frequency and amount of disbursements. University policies will apply on the same basis they did before, during the full term of employment.

For general questions, please email Donna Zischke, Academic Human Resources, zischke@msu.edu.
Payroll

1. How will this change affect the way faculty/academic staff with academic year appointments are paid?

All AY appointees will continue to be paid monthly. However, the frequency and amount of the disbursements will change. Our current practice is to pay the nine-month salary over a twelve-month period. The new pay plan will divide the budgeted annual salary by nine and distribute the payments across ten pay periods, beginning with the August 31 pay date and ending with the May 31 pay date. Salaries will be paid on August 31 for the 8/16 – 8/31 duty period, on the last day of each month from September through April for the full month’s duty period, and on May 31 for the 5/1 – 5/15 duty period. AY appointees will not receive paychecks for the months of June and July. The following chart illustrates this change in payment:

<table>
<thead>
<tr>
<th>Total Wages for academic year appointment from 8/16-5/15</th>
<th>Current Method</th>
<th>New Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid 12 over 12 for entire year</td>
<td>Paid 9 over 10</td>
<td></td>
</tr>
<tr>
<td>$90,000.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

August 3,750.00
September 7,500.00
October 7,500.00
November 7,500.00
December 7,500.00
January 7,500.00
February 7,500.00
March 7,500.00
April 7,500.00
May 7,500.00
June 7,500.00
July 7,500.00
August 3,750.00

PLEASE NOTE: This chart is for illustration purposes only. It is not an estimation of actual pay.

2. Will I receive paychecks this summer?

Yes. The change in the pay schedule will not occur until August 16, 2010.
3. What will I receive in my August 2010 paycheck?

If you are on an AY appointment now and in the 2010-11 academic year, your August 2010 paycheck will include the following components:
   a. Pay for 8/1 – 8/15 related to your 2009-10 appointment, based on pay distributed over 12 months
   b. Pay for 8/16 – 8/31 related to your 2010-11 appointment, based on pay distributed over 10 months
   c. Summer pay, if any

4. If I won't get a paycheck in June and July, how do I handle my expenses?

MSU worked with the MSU Federal Credit Union (MSUFCU) to establish a voluntary savings/distribution program at MSUFCU that will enable AY appointees to equalize salary payments over 12 months. See below for details about MSUFCU programs and services. You are also welcome to explore and implement solutions on an individual basis with your preferred financial institution. Please consult your tax advisor about the effect such a program may have on your taxes.

5. Is there a standard amount of income to reserve/save from each paycheck received during the duty period in order to equalize the distribution of income over twelve months?

Generally, your income can be equalized over 12 months by saving 25% of each check received during the duty period.

(A tool will be available on the Payroll website to help determine the amount to be saved based on individual needs).

6. I currently make $90,000; how does the nine-month pay affect my gross paycheck?

When you are paid over 12 months, your monthly gross pay is $7,500. Now that the pay will occur over nine months, your monthly gross pay will be $10,000. It will be the same total gross amount, but it will be spread over nine months instead of 12, with 8 full-month payments and 2 half-month payments. (Please keep in mind that the August and May paycheck amounts will be approximately ½ of the monthly gross pay.)

7. What if I receive a summer appointment?

Summer pay is not affected. It will be paid monthly, as it has in the past.
8. Will the change affect my 2010 taxable earnings?

Yes. If you have an AY appointment for both the 2009-10 and 2010-11 academic years, your 2010 taxable earnings will be greater by approximately 1 ½ months earnings because your earnings for Fall semester 2010 will be paid as earned and not deferred for later payment by being apportioned over a 12-month period. You will receive all monies earned through 12/31/10 in this calendar year. This is a one-time effect for tax year 2010 only. We encourage you to discuss this with your tax advisor for tax planning purposes. The following chart illustrates this change in taxable earnings:

| Impact on 2010 Taxable Earnings Illustration for an AY Appointment with a Salary of $90,000 |
|---------------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Annual Wages | 2009 | 2010 | 2011 |
| Paid 12 over 12 for entire year | Paid 12 over 12 thru 8/15; 9 over 10 starting 8/16 | Paid 9 over 10 |
| $90,000.00 | $90,000.00 | $101,250.00 | $90,000.00 |
| January | 7,500.00 | 7,500.00 | 10,000.00 |
| February | 7,500.00 | 7,500.00 | 10,000.00 |
| March | 7,500.00 | 7,500.00 | 10,000.00 |
| April | 7,500.00 | 7,500.00 | 10,000.00 |
| May | 7,500.00 | 7,500.00 | 5,000.00 |
| June | 7,500.00 | 7,500.00 | 0.00 |
| July | 7,500.00 | 7,500.00 | 0.00 |
| August | 7,500.00 | 8,750.00 | 5,000.00 |
| September | 7,500.00 | 10,000.00 | 10,000.00 |
| October | 7,500.00 | 10,000.00 | 10,000.00 |
| November | 7,500.00 | 10,000.00 | 10,000.00 |
| December | 7,500.00 | 10,000.00 | 10,000.00 |

PLEASE NOTE: This chart is for illustration purposes only. It is not an estimation of actual pay. The pay for August 2010 consists of the amount attributable to the 2009-10 appointment for 8/1-8/15 (approximately $3750.00) and the amount attributable to the 2010-11 duty period of 8/16-8/31 (approximately $5000.00).
9. Should I adjust my W-4 information (withholding allowances) and, if so, when?

If you have an AY appointment, it is advisable that you review your current tax withholding status and revise your Federal Form W-4 as necessary. We would encourage you to discuss this with your tax advisor. You can make changes to your W-4 information at any time, but you may wish to make your adjustments coincide with the August or September 2010 paychecks. Your Form W-4 may be changed online at the www.epayroll.msu.edu website.

10. What effect will my new gross monthly earnings have on my tax withholding?

Because the Payroll system uses the IRS Tax Withholding Tables to determine the tax withholding on each monthly salary payment, the amount of federal tax withheld each month will increase. The IRS tables assume that your new gross monthly earnings represent 1/12 of your annualized salary and will withhold taxes accordingly. As a result, if you have an AY appointment, it is advisable that you review your current tax withholding status and revise your Federal Form W-4 as necessary. Again, this is an item to discuss with your tax advisor for tax planning purposes. Your Form W-4 may be changed online at www.epayroll.msu.edu website.

(A tool will be available on the Payroll website to illustrate the effect of the tax calculation.)

11. Why will my monthly earnings be higher?

Your monthly earnings will be higher because your full annual salary will be paid over the months in the duty period (August 16 through May 15) rather than over 12 months.

12. How will deductions from my earnings be handled?

Certain deductions will be taken from every paycheck, including the partial pay months of August and May. These deductions include all required tax withholding, retirement deferrals, flexible spending arrangements (FSA) for both health care and dependent care, and any garnishments. As necessary, the FSA deductions will be pro-rated over the 10-month pay period.

Other benefits deductions (health insurance, life insurance, dental insurance, and disability) as well as parking, United Way, development fund, and MSUFCU deductions will be taken only from the full pay months of September through April. These deductions will be pro-rated to take the annual deduction amount over eight months. The following chart illustrates the timing for deductions:
### Deduction Schedule for Academic Year Pay

<table>
<thead>
<tr>
<th>Deductions to be taken from every pay (including August and May)</th>
<th>Deductions to be taken from 8 full pays (September – April)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAX WITHHOLDING (W-4 and MI-W4) *</td>
<td>TAX WITHHOLDING (W-4 and MI-W4) *</td>
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<tr>
<td>FICA TAXES (Social Security/Medicare)</td>
<td>FICA TAXES (Social Security/Medicare)</td>
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<tr>
<td>COURT-ORDERED DEDUCTIONS &amp; TAX LEVIES**</td>
<td>COURT-ORDERED DEDUCTIONS &amp; TAX LEVIES**</td>
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<tr>
<td>(including Friend of the Court/ Garnishments)</td>
<td>(including Friend of the Court/ Garnishments)</td>
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<tr>
<td>TAX DEFERRED RETIREMENT (see note)</td>
<td>TAX DEFERRED RETIREMENT (see note)</td>
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<tr>
<td>DCSA (Dependent Care Spending Account)</td>
<td>DCSA (Dependent Care Spending Account)</td>
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<tr>
<td>HCSA (Health Care Spending Account)</td>
<td>HCSA (Health Care Spending Account)</td>
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<tr>
<td>UNION DUES</td>
<td>UNION DUES</td>
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<tr>
<td>MEDICAL INSURANCE</td>
<td></td>
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<tr>
<td>DENTAL INSURANCE</td>
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<td>LIFE INSURANCE</td>
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<td>LONG TERM CARE INSURANCE</td>
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<td>ACCIDENT INSURANCE</td>
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<td>VISION INSURANCE</td>
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<tr>
<td>PARKING FEES</td>
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<tr>
<td>DEVELOPMENT FUND</td>
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<td>UNITED WAY ***</td>
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<tr>
<td>UNIVERSITY CLUB DUES</td>
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<tr>
<td>MSUFCU CREDIT UNION DEDUCTION</td>
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</tbody>
</table>

* Amount determined per pay period - not annually

** Full amount per instructions up to maximum amount allowable under law

*** United Way deductions indicated on pledge card. Donor specifies amount per pay period and number of pay periods.

** Full amount per instructions up to maximum amount allowable under law

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13. Will garnishments be adjusted during months when my earnings are lower?

All garnishments will be deducted from earnings as required and as limited by law. Garnishments, including child support, levies, wage assignments, bankruptcies, are deducted whenever an employee is paid. Some garnishments are based upon a percentage, while others are a fixed dollar amount. If you have these types of deductions against your pay, you may need to work with the parties involved to accommodate for the months with lower or no pay (May, June, July, and August).

For questions regarding Payroll, please email payroll@msu.edu.

Benefits

1. How will this affect my benefits?

Provided eligibility criteria continue to be met, health, prescription, dental, long term disability, and basic life benefits will continue for a full 12 months.

Benefit plan premiums for AY appointees will be deducted as follows:

- Flexible Spending Accounts (health care spending and dependent care spending) will be deducted (pre-tax) from each paycheck you receive, including the partial pay months of August and May.

- Retirement Plan Contributions will be deducted (pre-tax) from each paycheck you receive, including the partial pay months of August and May. Because the University’s and the employee’s contributions will be accelerated under this new approach, the compounded future value of an individual’s retirement accumulation likely will be increased.

- All other benefits (health, prescription, life, accident, etc.) will be deducted only from the months when you receive a full paycheck, September – April, and not from the partial pay months of August and May.

See the chart in question #12 in the Payroll section.

2. What if the combination of my Base, Supplemental, and Deferred Compensation Plan deductions plus my FSA reduction exceeds my partial month’s pay in May or August?

Required taxes and garnishments have first priority. Base retirement, supplemental retirement, deferred compensation, dependent care spending account, and health care spending account are all separate deductions. Each one will be taken in order until the remaining salary is not sufficient to cover the full requested amount, at which point nothing more will be taken. No “partial” deductions will be taken.
3. **What is the effective date for these changes?**

   The changes are effective with the August 2010 paycheck.

   For questions regarding Benefits, please email benefitsinfo@hr.msu.edu.

**Contract and Grant Administration (CGA)**

1. **How will grants and contracts be affected when MSU switches the payment of academic year (AY) salaries from 12 months to the nine-month duty period?**

   The change will simplify grants accounting. It will be acceptable to the granting agencies, but may, in rare and unusual cases, create a timing shortfall in the transition budget year. Currently, most CGA accounts budget for a full year of AY salary, and CGA has to make projections of future salary payments in order to meet the timing requirements of the sponsoring agency. With the new process, Change of Status forms can be processed for only the dates affected by the change (currently, changes must be averaged over the full semester pay dates), and final salaries will be paid and posted to the ledgers within the usual 90 day window most agencies allow for financial reporting. If a project were budgeted to use monthly payroll amounts for AY faculty, instead of the established percentage of annual salary, this change could cause a shortfall.

   For questions regarding Contract and Grant Administration, please call 355-5040.
MSU Federal Credit Union (MSUFCU) Voluntary Savings/Distribution Program

1. What services will the MSUFCU offer to assist those affected by the change?

- MSUFCU Membership – as MSU employees you are eligible for MSUFCU membership
- MSUFCU Educational Sessions – MSUFCU will offer educational sessions at the MSUFCU Crescent Branch. These will be informational sessions regarding budgeting and MSUFCU products and services available to assist you. You will also have the opportunity to sign up for membership, products and services at these sessions. The times and dates of these sessions will be provided in future correspondence.
- MSUFCU Website Tools – MSUFCU will provide a website tool to assist you in determining how to equalize your payroll over 12 months.
- MSUFCU Savings Products – MSUFCU has developed the Summer Pay product, an interest bearing savings account that will allow for automatic summer month distributions of your savings to a MSUFCU account you designate. Detailed information regarding this product will be provided in future correspondence. MSUFCU offers many other savings options that you may find beneficial.
- MSUFCU Loan Products – MSUFCU has developed the Summer Loan product, a 9 month loan. Detailed information regarding this product will be provided in future correspondence. MSUFCU offers many other lending options that you may find beneficial.

For questions about MSUFCU programs and services, please call 517/333-2424 or 800/678-4968.

Contact Information for Questions

There will be an open forum for questions about the change in pay schedule for academic year faculty and academic staff on Monday, March 29, 2010, 4:00 to 6:00 p.m., Parlor C (2nd Floor), Union Building. The forum is sponsored by the University Committee on Faculty Affairs and the Office of the Provost.

Questions about the change in pay schedule for academic year faculty and academic staff may be forwarded to apaytransition@hr.msu.edu.

Alternatively, you may contact the area related to your question (see below); we will be happy to re-direct your inquiry if another area is better suited to provide a response.

<table>
<thead>
<tr>
<th>Academic Human Resources</th>
<th>Donna Zischke</th>
<th><a href="mailto:zischke@msu.edu">zischke@msu.edu</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>(general questions)</td>
<td></td>
<td></td>
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<tr>
<td>Academic Human Resources Records</td>
<td></td>
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<td>Budget Office</td>
<td>Rick Geiersbach</td>
<td><a href="mailto:geiersba@msu.edu">geiersba@msu.edu</a></td>
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<tr>
<td>Contract &amp; Grant Administration</td>
<td>Dan Evon</td>
<td><a href="mailto:evon@cga.msu.edu">evon@cga.msu.edu</a></td>
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<tr>
<td>Payroll</td>
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<tr>
<td>MSU Federal Credit Union</td>
<td></td>
<td>517/333-2424 or 800/678-4968</td>
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