

Two Percent (2%) Deductions

Two percent deductions are deducted each payroll from any “regular” compensation that is greater than the \$30,000 pay period equivalent. Note that this 2% is in addition to the regular 9% on the total “regular” compensation. Payroll software is not always adept at automating the calculation, so you should know that the basic formula is to subtract the appropriate threshold from the gross “regular” compensation for this pay period and then multiply the remainder by .02. ($2,200 - 1,153.85 = 1,046.15 \times .02 = 20.92$ – two percent deductions))

Here are the two most common pay period equivalents:

Weekly payroll (52 weeks) = \$576.92 ($30,000/52$)

Bi-weekly (26 weeks) = 1,153.85

Rare and/or infrequent:

Month - \$2,500

Quarterly – 7,500

Semiannual – 15,000

Annual Stipend – 30,000

Schools have some additional pay schedules – see section below

Start or end work part way through a pay period – If the employee is paid for only part of a pay period because they started or ended employment part way through a pay period, the concept of annual rate still applies, and their wages should be compared to a \$30k equivalent threshold that matches the time worked. (3 days worked would be compared to $(576.92/5) \times 3 = \$346.15$) (daily rate is 115.38). You might even have to take it down to hours (threshold would be anything over 14.42 per hour).

Unpaid leave mid pay period – If the employee is paid for only part of a pay period because they took unpaid leave part way through a pay period, the concept of annual rate still applies, and their wages should be compared to a \$30k equivalent threshold that matches the time worked. (3 days worked would be compared to $(576.92/5) \times 3 = \$346.15$). You might even have to take it down to hours.

Interim, temporary promotion or position coverage – if their wages increase for this reason - then calculate the 2% based on the pay period. This follows PERAC guidance.

School Employees (not teachers) – This applies to those of you that process payroll for the schools in our system and have employees that work and are paid over ten months (or similar), and that pay exceeds \$30,000 annually. This section does not apply if the employee is paid over 12 months even though they only worked 10 – they are processed in the normal manner. For employees paid over ten months (or 21 pays, or 22 pays, or 24 pays, etc.) use these thresholds:

10 months ($\$30,000 / 10 = \$3,000$)

Monthly - \$3,000

Semi-monthly - \$1,500

21 pays ($\$30,000 / 21 = 1,428.57$)

Bi-weekly - \$1,428.57

Weekly - \$714.29

22 pays ($\$30,000 / 22 = 1,363.64$)

Bi-weekly - \$1,363.64

Weekly - \$681.82

24 pays ($\$30,000 / 24 = \$1,250.00$)

Bi-weekly - \$1,250.00

Weekly - \$625.00

This makes sense because in theory the school employee could work the summer and get more pay, and/or have a second job.

Same position, but temporary (or occasional) increase in hours – even if the pay exceeds the 2% threshold for the pay period, base the 2% on whether they will make \$30,000 for the entire calendar year.

This might take some thought that includes consideration of how close they are to \$30,000, how certain it is they will (or not) exceed \$30k, what happened in prior years, what the likelihood is that the extra pattern will continue. The goal is to agree to a plan with the treasurer that won't drive them crazy trying to implement. If the wages are only flirting with exceeding the \$30k, and the variance is within \$1,000 then we are not talking much money ($\$1,000 \times 2\% = \20), so don't worry too much about whether we take it or not in this scenario. However, if it is reasonably clear that it is beyond the \$1,000 window (+ or -), or history indicates this is an annual issue, then pursue it with the treasurer and devise a workable plan – at least tally up before the end of the year and have the appropriate 2% total included in the December deductions. (This means getting it agreed to by December 15th so you catch the last payroll!.)

Extra pay for additional duties over a period less than a year – For this list of pay types, even if the pay exceeds the 2% threshold for the pay period, base the 2% on whether they will make \$30,000 for the entire calendar year.

Class Advisor

Extra work/performance stipend

Coaching

School Play

PD Grants

Added pay to the annual salary – For this list of pay types, even if the pay exceeds the 2% threshold for the pay period, base the 2% on whether they will make \$30,000 for the entire calendar year.

Longevity

Quinn Bill

Educational Incentive

Treasurer

Collector

Town Clerk

Collecting missed 2% deductions: see separate policy on “Missed Deductions”

27 pays in a year: This confuses us when we are doing our end-of-year check on 2%, because suddenly there are 27 pays in the 12 month span instead of 26, and the annual total is inflated by that extra pay. The proper way to adjust for this is to add an additional \$1,153.85 to the \$30,000 so that the \$30k equivalent will be in sync with the number of pays.

The annual check will catch some oddities, but it is not the true way to determine the amount of 2%. PERAC provides strong guidance to focus on rate of pay for the pay period, and not simply whether or not the employee will receive more than \$30,000 by the end of the year. MGL 32 §22(1)(b1/2) is thin on instruction as to how to deduct the 2%:

“ . . . the treasurer or other disbursing officer in charge of payroll in any governmental unit to which a system pertains, shall withhold on each pay day, in addition to the amounts withheld pursuant to paragraph (b) an additional two per cent of such member’s regular compensation over thirty thousand dollars.”

So to spread out the taking of deductions, PERAC rightly instructs the retirement systems to take deductions each pay period based on the rate of pay, rather than waiting until the employee earns \$30,000 and then start taking 2% on everything they earn for the rest of the year – and then start at zero all over again next year.