

BACKGROUND

The Virginia Retirement System (VRS) has a fiduciary and statutory responsibility to correctly calculate members' creditable compensation because it determines their future retirement benefit amounts, as well as life insurance and disability coverage amounts while working. Current annual base salary reported to VRS may differ from total compensation paid to the member.

To clarify VRS policy, the agency has revised the definition of creditable compensation, which is based on the *Code of Virginia*.

Creditable Compensation Defined

Creditable compensation is the member's current annual base salary excluding overtime; extraordinary pay; bonus pay; housing and moving expenses; mobile device and internet costs; vehicle allowances; termination pay for leave; non-permanent shift differentials; payments of a temporary nature including but not limited to acting pay (if not permanently confirmed for the position); or payments for extra duties, such as pay for teachers who serve as coaches. A member's election to defer salary to a deferred compensation plan, such as a 403(b), a 457(b) or a 125 plan, may only be included in creditable compensation if the member voluntarily elects the deferral, the deferral is not conditional or performance based, and the deferral would otherwise be included in the member's gross income. Other exclusions apply.

While this information serves as a guide to reporting creditable compensation, every potential scenario may not have been contemplated or addressed here. As VRS makes final determinations regarding creditable compensation based on individual facts and circumstances, it is important to contact VRS with questions.

CREDITABLE COMPENSATION PER THE CODE OF VIRGINIA

- 1) [§ 22.1-302](#) Written contracts required; execution of contracts; qualifications of temporarily employed teachers; rules and requirements.
- 2) [§ 51.1-124.3](#) Definitions.
- 3) [§ 51.1-144](#) Member contributions.
- 4) [§ 51.1-152](#) Limitations on average final compensation.
- 5) [§ 51.1-168](#) Limits on creditable compensation; maximum benefits; mandatory payment of allowance.

CREDITABLE COMPENSATION: INCLUSIONS AND EXCLUSIONS

VRS has developed a list of inclusions and exclusions to current annual base salary reported for creditable compensation.

Creditable Compensation for School Divisions

Use the following examples as a guide for reporting current annual base salary to VRS for the purpose of calculating creditable compensation. **Because compensation practices change over time and individual circumstances may vary, this list should not be considered all-inclusive. While this information serves as a guide to reporting creditable compensation, VRS makes final determinations regarding creditable compensation based on individual facts and circumstances. Contact VRS with questions.**

| INCLUDE |
|---|
| Annual base salary |
| Payment for assignments conducted in conjunction with regular classroom, curriculum or instructional programs |
| Educational increases, per an existing policy, for receiving an advanced degree |
| Elective deferrals that would have otherwise been included in the member's taxable income |
| Payment for acting position if the member is permanently confirmed in the position (employer may retroactively adjust creditable compensation)* |
| Payments for years of service that become part of annual base salary (compression pay) |
| Regular compensation paid while on sick, personal or annual leave |
| Cost-of-living or other adjustments that become part of the member's annual base salary |
| Military/federal grant supplements if they are included in the member's contracted salary amount |

| EXCLUDE |
|---|
| Overtime payments |
| Signing, retention or other bonus |
| Lump-sum payments for longevity, bonuses, holiday pay or unused vacation, compensatory time, termination pay and sick leave |
| Housing, clothing, cell phone, internet, tool or vehicle allowances |
| Payment for acting position if the member is not permanently confirmed in the position* |
| Payments of a temporary nature |
| Payment for extracurricular activity sponsorships, which include assignments requiring responsibility for any student organizations, clubs or groups, such as service clubs, academic clubs and teams, cheerleading squads, student publication and literary groups, and visual and performing arts organizations |
| Payment for athletic coaching |
| Payments for teaching summer school, tutoring, teaching driver education, etc. |
| Amounts paid in addition to current annual base salary for professional development or education assistance such as recertification and educational workshops |

* Acting pay is not included in creditable compensation unless the employee is permanently confirmed in that position.

EXCLUDE (Continued)

Increments or adjustments made at or near the end of a member's service, unless the adjustment was made for all similarly situated personnel as a result of an across-the-board adjustment

Non-elective employer contributions to qualified and non-qualified deferred compensation plans and for the purchase of annuities

Fringe benefits, including employer-paid health care, individual life and disability insurance premiums, wellness incentives, in-kind benefits and paid parking Increments or adjustments made at or near the end of a member's service, unless the adjustment was made for all similarly situated personnel as a result of an across-the-board adjustment

Any form of compensation that is not included in the current annual base salary, including overtime

Payment made as a result of the employer's knowledge of a member's retirement, including severance pay

Payments for special projects

Reimbursement for travel, meals or other expenses

Salary payable for services rendered in connection with a school lunch program

Payments for any services provided that are not required in the position upon which the individual's VRS membership is based

Stipends for serving as a school board member

Retirement incentive payouts or contributions

Payments for work as an independent contractor or consultant

Compensation through private sources such as foundations or endowments

Workers' compensation, unless paid with sick leave

Creditable Compensation for Political Subdivisions

Use the following examples as a guide for reporting current annual base salary to VRS for the purpose of calculating creditable compensation. **Because compensation practices change over time and individual circumstances may vary, this list should not be considered all-inclusive. While this information serves as a guide to reporting creditable compensation, VRS makes final determinations regarding creditable compensation based on individual facts and circumstances. Contact VRS with questions.**

| INCLUDE |
|--|
| Annual base salary |
| Educational increases, per an existing policy, for advanced certifications for law enforcement officers and emergency medical technicians (EMTs) |
| Elective deferrals that would have otherwise been included in the member's taxable income |
| Payment for acting position if the member is permanently confirmed in the position (employer may retroactively adjust creditable compensation)* |
| Payments for years of service that become part of current annual base salary (compression pay) |
| Regular compensation paid while on sick, personal or annual leave |
| Cost-of-living or other adjustments that become part of a member's current annual base salary |
| Military/federal grant supplements if they are included in the member's contracted current annual base salary amount |

| EXCLUDE |
|---|
| Overtime payments |
| Signing, retention or other bonus |
| Lump-sum payments for longevity, bonuses, holiday pay or unused vacation, compensatory time, termination pay and sick leave |
| Housing, clothing, cell phone, internet, tool or vehicle allowances |
| Payment for non-permanent shift differentials |
| Payment for acting position if the member is not permanently confirmed in the position* |
| Payments of a temporary nature |
| Payments for extra duties |
| Payment for work as an independent contractor or consultant |
| Stipends for serving on a city council or county board of supervisors |
| Non-elective employer contributions to qualified and non-qualified deferred compensation plans and for the purchase of annuities |
| Fringe benefits, including employer-paid health care, individual life and disability insurance premiums, wellness incentives, in-kind benefits and paid parking |
| Any form of compensation that is not included in the current annual base salary, including overtime |
| Payment for any services provided that are not required in the position upon which the individual's VRS membership is based |
| Payment made as a result of the employer's knowledge of a member's retirement, including severance pay |

* Acting pay is not included in creditable compensation unless the employee is permanently confirmed in that position.

EXCLUDE (Continued)

Reimbursement for attending educational workshops

Reimbursement for travel, meals or other expenses

Retirement incentive payouts or contributions

Workers' compensation, unless paid with sick leave

Amounts paid in addition to current annual base salary for professional development or education assistance such as recertification and educational workshops

Compensation through private sources such as foundations or endowments

Increments or adjustments made at or near the end of a member's service, unless the adjustment was made for all similarly situated personnel as a result of an across-the-board adjustment

Nonrecurring single-sum payments, such as moving expenses

Payment for special projects

Creditable Compensation for State Agencies/Higher Education

Use the following examples as a guide for reporting current annual base salary to VRS for the purpose of calculating creditable compensation. **Because compensation practices change over time and individual circumstances may vary, this list should not be considered all-inclusive. While this information serves as a guide to reporting creditable compensation, VRS makes final determinations regarding creditable compensation based on individual facts and circumstances. Contact VRS with questions.**

| INCLUDE |
|--|
| Annual base salary |
| Educational increases, per an existing policy, for advanced certifications for state police or VaLORS positions |
| Elective deferrals that would have otherwise been included in the member's taxable income |
| Payments for years of service that become part of current annual base salary (compression pay) |
| Regular compensation paid while on sick, personal or annual leave |
| Cost-of-living or other adjustments that become part of a member's current annual base salary |
| Military/federal grant supplements if they are included in the member's contracted current annual base salary amount |

| EXCLUDE |
|--|
| Overtime payments |
| Signing, retention or other bonus |
| Lump-sum payments for longevity, bonuses, holiday pay or unused vacation, compensatory time, termination pay and sick leave |
| Housing, clothing, cell phone, internet, tool or vehicle allowances |
| Payment for non-permanent shift differentials |
| Payment for acting position |
| Payments of a temporary nature |
| Payments for extra duties |
| Any form of compensation that is not included in the current annual base salary, including overtime |
| Amounts paid in addition to current annual base salary for professional development or educational assistance, such as recertification and educational workshops |
| Increments or adjustments made at or near the end of a member's service, unless the adjustment was made for all similarly situated personnel as a result of an across-the-board adjustment |
| Payment for special projects |
| Retirement incentive payouts or contributions |
| Non-elective employer contributions to qualified and non-qualified deferred compensation plans and for the purchase of annuities |
| Fringe benefits, including employer-paid health care, individual life and disability insurance premiums, wellness incentives, in-kind benefits and paid parking |
| Any payment made as a result of the employer's knowledge of a member's retirement |

EXCLUDE (Continued)

| |
|---|
| Payment for any services provided that are not required in the position upon which the individual's VRS membership is based |
| Payment for work as an independent contractor or consultant |
| Reimbursement for travel, meals or other expenses |
| Compensation through private sources such as foundations or endowments |
| Any nonrecurring single sum payments, such as moving expenses |
| Workers' compensation, unless paid with sick leave |
| Payment made as a result of the employer's knowledge of a member's retirement, including severance pay |

CREDITABLE COMPENSATION CHECKLIST

Accurate reporting of VRS members' current annual base salary ensures creditable compensation is calculated correctly. The following checklist serves as a tool for employers when reporting current annual base salary information to VRS. The creditable compensation checklist is not considered an exhaustive list.

IMPORTANT: If you answer “**yes**” to any of the questions, that amount **should not** be included in the current annual base salary reported to VRS for purposes of calculating creditable compensation.

| Does the current annual base salary you report to VRS include... | Yes | No |
|---|-----|----|
| A signing, retention or other bonus? | | |
| Annual stipends for serving on school boards, city/county government or commissions? | | |
| Bonus pay? | | |
| Compensation from private sources, such as foundations or endowments? | | |
| Early retirement incentives? | | |
| Extraordinary pay? | | |
| Fringe benefits such as health care, life or disability insurance premiums? | | |
| Lump-sum payments for longevity, unused holiday pay, vacation, compensatory time or sick leave? | | |
| Non-recurring payments such as moving expenses? | | |
| Overtime pay? | | |
| Payment for a non-permanent shift differential? | | |
| Payment for acting position if the member is not permanently confirmed in the position? | | |
| Payment for extracurricular activity sponsorship? | | |
| Payments for extra duties, such as coaching, acting as an advisor, tutoring, driver education, summer school or special projects? | | |
| Payments for work as an independent contractor or consultant? | | |
| Payments of a temporary nature? | | |
| Non-elective employer contributions to qualified and non-qualified deferred compensation plans? | | |
| Payment for professional development or education assistance? | | |
| Retroactive increments or adjustments made at or near the end of a member's service? | | |
| Supplements for acting in a temporary position if the member was not confirmed for the permanent position? | | |
| Termination pay? | | |
| Travel reimbursements? | | |
| Travel, housing, cell phone, vehicle, internet, clothing or tool/equipment allowances? | | |
| Unused annual or sick leave payments? | | |
| Worker's compensation not paid with sick leave? | | |

MODEL CONTRACT LANGUAGE

Use the following language to assist with developing contracts for executive-level positions. In this model language, the deferred compensation contribution is considered reportable because it meets the creditable compensation definition.

The parties agree that the Employee's annual base salary is \$_____.

Employer agrees to make a contribution to a deferred compensation plan or plans [specify plan] on behalf of the Employee in the aggregate annual amount of \$_____. The parties also agree that the contribution is not conditional, the contribution would have otherwise been included in the Employee's taxable income, and the Employee acknowledges that he/she has elected the deferral. Finally, the parties acknowledge that they are responsible for ensuring adherence to the applicable contribution limits for the deferred compensation plan or plans to which the contribution is made.

Below are examples of how contract wording will affect the creditable compensation amount you report to VRS.

EXAMPLE 1

The parties agree that the Employee's annual base salary is \$100,000.

In this example, the creditable compensation that should be reported to VRS is \$100,000.

EXAMPLE 2

The parties agree that the Employee's annual base salary is \$70,000.

Employer agrees to pay employee \$24,000 in travel allowance and \$6,000 in mobile device and internet costs annually, which are included in creditable compensation.

This example includes components that supplement annual base salary, and VRS does not consider these components to be creditable compensation even if that language is used in the contract. The creditable compensation that should be reported to VRS is \$70,000.

EXAMPLE 3

The parties agree that the Employee's annual base salary is \$100,000.

The Employer agrees to make a contribution to a deferred compensation plan or plans on behalf of the Employee in the aggregate annual amount of \$24,000. The parties also agree that the contribution is not conditional, the contribution would have otherwise been included in Employee's taxable income, and the Employee acknowledges that he/she has elected the deferral. Finally, the parties acknowledge that they are responsible for ensuring adherence to the applicable contribution limits for the deferred compensation plan or plans to which the contribution is made.

In this example, the creditable compensation that should be reported to VRS is \$124,000.

CONTACTS AND RESOURCES

Questions about creditable compensation inclusions/exclusions? Contact your [employer representative](#).

Additional Resources:

- [Understanding myVRS Navigator's Calculations and Business Rules](#)
- [Understanding myVRS Navigator's Calculations and Business Rules for Less than 12-Month Employees](#)
- [Employer Manual – Enroll and Maintain Employees](#)
- [Department of Accounts Summary of Special Pay Impact on Creditable Compensation](#)