Retroactive Wage Process & Form (Correcting An Underpayment Of Wages)

Correcting An Underpayment Of Wages

Retroactive pay refers to monies not paid when due, or to a pay rate change that should have taken effect in a previous pay period. It can never include advance payment of current wages.

Retroactive pay may be due to an employee for a variety of reasons:

- late entry or approval of job data (past the payroll schedule/approval deadlines)
- incorrect entry of job data (including late entry of pay rate change)
- unapproved job data entries
- hours not entered into Time Collection (hourly employees only)
- too few hours entered in Time Collection (hourly employees only)

Calculating Retroactive Payments

1. **Contract Pay?Must Use Retroactive Pay Adjustment Form**

   If the retroactive pay amount is for an employee paid in the HRMS by **CONTRACT**, the request for a payment adjustment must be submitted in writing to Employee Services using the Retroactive Pay Adjustment Form [1].

   Since special system processing is required whenever contract pay is adjusted, these requests must be submitted to Employee Services for processing. **The department should never process retroactive pay for contract paid employees in Time Collection.**
2. **No Pay Received**

   If an employee did not receive any pay for the first monthly or biweekly pay cycle after his/her hire date, he/she must be paid for the full month or partial month that was missed. Some scenarios:

   Use this when the employee starts working sometime after the first working day of the month and cannot be paid for the first month by the payroll system, due to the timing of the payroll deadlines.

Use this to calculate pay for an employee with a hire date of Oct. 25, 2006, who did not receive any October end-of-month pay because the input deadline had passed.

An employee?s monthly salary is $2,870, and she started on 10/25/06. She works 5 out of the 22 working days in October. Calculate her pay as follows:

Total Monthly Salary ÷ number of working days in the month = $ paid per day

$ paid per day **x** number of actual days worked = gross $ owed to pay employee

$2,870 ÷ 22 days in the month = $130.45 per day

$130.45 per day **x** 5 days worked = $652.25 pro-rated gross salary

3. **Partial Month Pay Rate Change Not Received**

This happens when a partial-month pay-rate change is not entered or approved for the month in which it was effective. The "Pay Rate Change" row must be entered and approved in Workforce Administration > Job Data using the effective date on which the pay-rate change actually occurred.

(If you need correction ability to insert this row with the appropriate effective date, contact the department dean's or director's office, or an Employee Services payroll counselor for referral to the appropriate campus operator.) Some scenarios:

Use this calculation when an employee receives a salary increase any time after the first of the month, and it is too late to change the rate in the HRMS (i.e., payment of a salary increase in addition to the salary amount already paid).

Use this to calculate the additional pay due to an employee who receives a salary increase effective Oct. 25, 2006. The employee already received her regular salary of $2,870 for October but did not receive the additional dollars for the increase to $3,000 per month that was effective 10/25/06.

New monthly salary **-** previous monthly salary = Pay difference per month. (This difference can be found in the HRMS in Job Data > Compensation next to ?change amount.?)

Pay difference per month ÷ the number of working days in the month = increase per day

Increase per day **X** the number of days worked at higher rate = pay increase due

$3,000 **-** $2,870 = $130

$130 ÷ 22 = $5.91 pay increase per day

$5.91 **x** 5 days worked (10/25 through 10/31) = $29.55 pay increase due

4. **Full-Month Pay-Rate Change Not Received**

   This occurs when someone fails to enter or approve a full-month pay-rate change (payment of a salary increase for a full month) for the month in which it was effective. The "Pay Rate Change" row must be entered and approved in Workforce Administration > Job Data using the effective date on which the pay rate change actually occurred.

   (If inserting this row with the appropriate effective date requires correction ability, contact the department dean's or director's office, or an Employee Services payroll counselor for referral to the appropriate campus operator.) Some scenarios:

   Use this calculation when an employee receives a salary increase effective at the beginning of the month, and the department was unable to input the data into the HRMS by the payroll deadline.

   Use this to calculate the additional pay due to an employee who receives a salary increase effective Oct. 1, 2006, which increased his salary from $2,870 to $3,000 per month.

   New monthly salary **-** previous monthly salary = Pay difference per month

   Pay difference per month = additional retroactive pay amount to pay employee for the month

   $3,000 **-** $2,870 = $130

   Pay the employee an additional retroactive pay amount of $130

Suggested Best Practices

- As a best practice for both biweekly and monthly pay adjustments, if the retroactive pay amount due is relatively small (determined at the department's discretion; the recommendation is 15 percent of normal base salary, or less), the department is encouraged to enter the retroactive pay **(LTP)** due into Time Collection for hourly paid employees only. Do not use Time Collection to enter contract pay, per the above note, or pay for any monthly employee.

  The hourly employee will then be paid on the next available pay cycle (hourly pay rate **x** the number of hours worked).
- The department may also enter larger amounts of retroactive pay into Time Collection for its hourly paid employees whenever they can wait until the next regularly scheduled pay date for payment.
- Departments should enter their retroactive pay for hourly paid employees as **LTP** (late pay) in Time Collection. For all salaried employees and contract-paid employees, the department should complete a Retroactive Pay Adjustment Form and submit it to

Employee Services for processing. (Do not enter it in Time Collection.) br/>Employee Services will process the form for payment on the next regularly scheduled pay date.
- For larger amounts of pay due, when the employee cannot wait until the next pay date for payment, the department may submit a hand-drawn request to Employee Services. (No Retroactive Pay Adjustment form should be submitted in this case.)

Important: When the department codes the information onto the Retroactive Pay Adjustment Form, it is very important that the correct earn type be used. RGS cannot be used for all salaried monthly appointments. Many appointments are stipends and must be paid using the STP earn type.

Others are student faculty and need to use the STS earn type. Using an incorrect earn type may cause inappropriate deductions to be taken. For example, using RGS for a stipend payment will incorrectly deduct OASDI and Medicare from the employee's pay, and the incorrect taxes will have to be refunded.

As a general rule, always use the same earn type as the employee's regular payment. If you are in doubt as to the correct earnings code to use, please contact an Employee Services payroll counselor for assistance.

Procedures by Pay Type (Salaried or Hourly)

Follow procedures below, depending on the pay cycle (monthly or biweekly) of the wage payment:

- Salaried Retroactive Wage Payment
    - New hire, transfer, rehire and/or add concurrent job?salaried employee
      When a new hire, transfer, rehire and/or add concurrent job action is entered with an effective date for a prior pay period, the Retroactive Pay Adjustment Form should be completed and faxed to Employee Services at 303-860-4299 for processing.

      The employee will be paid on the next available, regularly scheduled pay date.

      Note: If an emergency wage payment is requested for retroactive wages due, the department must submit a Hand-Drawn Warrant Request Form for payment to be issued. DO **NOT** SUBMIT a Retroactive Pay Adjustment Form if a Hand-Drawn Warrant Request Form is being requested.

- Hourly Retroactive Wage Payment
    1. New hire, transfer, rehire and/or add concurrent job?hourly employee
       Retroactive, hourly wage payments should be entered in Time Collection by the department as LTP (late payment) using the "Hours" field. The employee will be paid on the next regular pay cycle.

       Note: If an emergency hourly payment (hand-drawn request) is needed for retroactive wages due, DO **NOT** ENTER the hours in Time Collection.The department should submit a Hand-Drawn Warrant Request Form for payment to be issued quickly. On the Hand-Drawn Warrant Request form, please provide the pay period(s) affected, missing hours and appropriate pay rate. (The Retroactive Pay Adjustment form should not be submitted if a Hand-Drawn Warrant Request Form is being requested. Submitting both forms will result in an overpayment to the employee.

2. Pay-rate change?hourly employee
   If a retroactive adjustment is needed due to an increase in compensation amount (hourly rate) for a prior pay period, the department calculates the difference between the old pay rate that was used and the new pay rate that should have been used.

   Multiply the number of hours worked, times the difference in the pay rate, and enter this amount in Time Collection using the LTP (late payment) earn code with a flat dollar amount.(Enter this flat dollar amount in the "Additional Amount" field, not in the "Hours" field.)

   Note: If a Hand-Drawn Warrant is requested, DO **NOT** ENTER it in Time Collection. This will result in an overpayment to the employee. On the Hand-Drawn Request Form, please provide the pay period(s) that is affected, the incorrect rate that was paid, and the correct rate and hours.
   - Tax Calculation for Retroactive Payments
     Retroactive pay will be taxed in the current pay period using the employee's W-4 status unless a One-Time Payment earnings code is used. One-time payment earnings codes are taxed at the supplemental tax rate. (See more information on One-Time Payment [2]. The supplemental tax rate is 25 percent for federal and 4.63 percent for state.
   - Adjustments to Exception Pay
     When calculating retroactive pay owed to an employee, exception pay must also be accounted for. Examples include docks, overtime pay, or shift pay that was paid on the pay cycle(s) affected. Please refer to the following examples for guidelines.

1.
   Docks: An employee who makes $2,000 per month was docked (DK2) on his May 2006 paycheck for two hours of leave without pay taken in April 2006. The amount docked using DK2 (Dock Prior Month) was $25 (20 working days in April **x** 8 hours/day = 160 hours

   $2000 ÷ 160 = $12.50/hour **x** 2 hours = $25

   It is later discovered that the employee was supposed to receive a pay increase to $2,100 per month effective April 1. If the pay increase had taken place on April 1, as intended, the amount docked would have been $26.25 ($2,100 ÷ 160 hours = $13.125/hour **x** 2 hours = $26.25).

   Since a retroactive pay rate change is being processed effective April 1, subtract an additional dock amount of $1.25 ($26.25-$25) from the retroactive rate increase of $100 that is being paid.

   The employee is due $98.75 in retroactive pay.

2. Overtime Pay: An employee who makes $2,000 per month ($11.538 per hour annualized rate) was paid on her April paycheck for two hours of overtime worked in March. The overtime pay, paid at time-and-one-half, was $34.61.

   In May, it is discovered that the employee was supposed to receive a pay increase to $2,100 per month ($12.115 per hour annualized rate), effective April 1.

   If the pay increase had taken place on April 1, as intended, the employee would have been paid overtime in the amount of $36.35 (12.115 **x** 1.5 **x** 2 hours).

   The employee is due an additional $1.74 for overtime in addition to the $100 due for the rate increase.

   (Note: overtime is paid at the rate in effect for the month in which it is paid, not the month in which it is earned.)

3. Shift Pay: An employee who makes a base salary of $2,000 per month ($11.538 per hour annualized rate) was paid on her April paycheck for an additional 184 hours of shift pay, for hours worked on the second shift during March. Since the shift differential was 7.5 percent, the employee's April pay included the $2,000/month base, plus $159.22 for the shift differential, for a total pay of $2,159.22.

   In May, it is discovered that the employee was supposed to receive a pay increase to $2,100 per month ($12.115 per hour annualized rate), effective April 1.

   If the pay increase had taken effect as intended, the employee would have been paid $2,100, plus $167.19 ($12.115 **x** 184 **x** .075)) for the shift differential, for a total pay of $2,267.19.

   Retro pay due would be $100 for the additional base pay, plus $7.97 ($167.19 **-** $159.22) for the additional shift pay, for a total of $107.97 retro pay due.

Please contact an Employee Serivces payroll counselor for assistance with these calculations. Departments may also complete a Retroactive Pay Adjustment Form and submit it to Employee Services for processing.

Employee Services will confirm the calculation of the retroactive adjustments needed for base pay and exception pay, and process the payment on the next regularly scheduled pay date.
