

# Employer Training

# PERFORMANCE, ONE-TIME PAYMENTS, AND BONUSES

## INTRODUCTION

Colorado PERA-includable salary includes certain performance-based and one-time payments that meet the criteria set forth in PERA Rules.

### PERFORMANCE OR MERIT PAYMENTS

Payments made pursuant to a written plan or policy which are in addition to regular salary or which replace regular salary increases in recognition of sustained employee performance over the evaluation period.

### ONE-TIME PAYMENTS

One-time, non-base building payments made to employees as compensation for services rendered.

The following explains the criteria that must be met for the payments to be PERA-includable:



#### Performance or Merit Payments

In order for performance or merit payments to be PERA-includable salary, the payment must be for performance and made pursuant to a written plan adopted by the employer which identifies specific, measurable, and objective criteria or goals to be met by employees in order to receive payment. The written plan must be defined prior to the start of the evaluation period and include the following criteria:

- WHO:** The performance plan must define the employee(s) or group(s) of employees eligible to participate. If participation in the performance plan is contingent on any other conditions, such as full-time employment, those conditions should also be clearly defined.
- WHAT:** The amount of payments to be received by the employee(s) under the plan must be clearly defined prior to the start of the evaluation period. The plan could also specify a range of payments to be received, along with the method for determining the percentage or amount within the range an employee will receive.



Most payments meeting the above criteria are considered earned in the month in which the performance payment is made. With the exception of payments to Denver Public Schools (DPS) members who were eligible to retire as of January 1, 2011, which are considered earned in the months for which the performance payments are based.

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## One-Time Payments

One-time, non-performance and non-merit based payments paid by an employer is considered PERA-includable salary if the employer provides documentation demonstrating its intent that the payment is to be considered a salary payment (compensation for services rendered) rather than a bonus, and that the payment is in no way designed to manipulate Highest Average Salary. The documentation must also include information on the following criteria:

**WHO:** The one-time payment is applicable to all employees in a particular class without regard to age and/or length of service. The class of employees must be a class that the employer regularly uses for purposes of setting compensation.

**WHAT:** The one-time payment is a flat dollar amount or flat percentage of base salary and is explicitly adopted and approved by the governing board prior to the start of the fiscal or academic year in which the services will be provided or the period for which the one-time payment is intended. The amount of the payment does not have to be approved at that time.



## BONUSES

Payments that do not meet the criteria outlined under "Performance and Merit Payments" and "One-Time Payments," are not considered PERA-includable salary. This includes honorariums, cash awards, bonuses, and other payments enumerated in C.R.S. 24-51-101(42)(b). While bonuses can also be a way of rewarding good performance, they are not considered performance or merit payments or one-time payments under PERA Rules because of either of the following:

- » One or more of the variables listed in the criteria was not defined ahead of time.
- » One or more of the conditions outlined in the criteria was not met.

## EXAMPLES



Performance and Merit Payments

- **Scenario 1:** A college gives achievement-based awards to faculty on an annual basis. Performance criteria, such as research accomplishments and achievements both inside and outside of the classroom, are considered for nominations for the awards. After nominations are submitted, the college's research council selects the winner from the pool of nominees.

- **Explanation:** The awards are not given based on specific performance metrics because the selection of the winner is at the discretion of the research council. The monetary awards are non-includable for PERA purposes due to the discretionary component in the selection process.

- ***Not PERA-includable salary***

- **Scenario 2:** A Colorado municipality has a program designed to reward outstanding work performance and encourage performance improvement. All full-time and part-time employees are eligible to receive the award. Payments under the program are awarded to employees who receive either an "exceeds expectations" or "outstanding" rating on their annual performance review. The program specifies that the employee will be eligible for 10 percent of his or her annual base pay as a merit payment.

- **Explanation:** The payments made under the program meet all the criteria necessary to be considered PERA-includable salary.

- ***PERA-includable salary***

## EXAMPLES (CONTINUED)



Performance  
and Merit  
Payments

**Scenario 3:** A Colorado municipality sponsors a wellness program where employees receive additional pay for achieving goals related to health screenings, health awareness, and improvement. The goals that need to be reached in order to earn points are clearly spelled out in the program. Payments are determined by the number of points the participants earns.

**Explanation:** The payments made pursuant to this program are non-includable because the performance requirements for payment are not job-related.

**Not PERA-includable salary**



One-Time  
Payments

**Scenario:** Certified staff, administrators, and "exempt" staff of a school district receive 0.5 percent of their current salary as a one-time payment in December 2017. This payment is given to all full-time and part-time employees. This payment is a negotiated one-time salary increase for services rendered and was approved by the board prior to the start of the school year.

**Explanation:** This payment meets all the criteria necessary to be considered PERA-includable salary.

**PERA-includable salary**



Bonuses

**Scenario 1:** A local government agency has a fiscal year that runs from July 1 to June 30. In November 2016, the agency determined it will have extra money in the budget for the second quarter of 2017 and the board approved using the extra funds to make a one-time payment to all employees of the agency in December 2016 as a "thank you" for their work throughout the year.

**Explanation:** This payment is not for services rendered by the employees and was not approved by the board prior to the start of the agency's fiscal year. It is considered a bonus and not PERA-includable salary.

**Not PERA-includable salary**

**Scenario 2:** An employee of a rural school district is given a bonus for helping their employer by referring someone for a hard-to-fill vacancy.

**Explanation:** This payment is not for services rendered by the employee, so it is not considered PERA-includable salary.

**Not PERA-includable salary**

## SUBMITTING A PAYMENT PLAN FOR REVIEW

PERA does not give any advice on the creation of payment plans. If you have determined that you have a payment plan that may meet the definition of PERA-includable salary, you must submit the relevant plan documentation to PERA for review. PERA will fully review and provide a determination. Requests for review should be submitted well in advance of the anticipated pay date. Contact your Employer Representative to help you initiate this process as explained below:

You have a payment you believe is PERA-includable salary.

Submit the payment plan to your Employer Representative. PERA will review the plan and determine whether or not the payments described meet the definition of PERA-includable salary.

After a full review, PERA sends the determination of the payment plan to the employer. *Note: Although PERA strives to provide a determination in a timely manner, this review may take several weeks.*

## INCORRECTLY REPORTING SALARY AS INCLUDABLE

If you report a payment as PERA-includable salary and it is later determined the payment did not meet the definition of PERA-includable salary, you will be required to make corrections to member records. This may include crediting the non-includable salary and contribution amounts out of member accounts and returning the withheld contributions to employees and former employees—including PERA retirees. You may also be required by the IRS to correct tax records such as W-2s for the year(s) in question.



These guidelines are for informational purposes only. State law, PERA Rules, and PERA's determination regarding your plan supersede the information contained in this training. While PERA representatives can discuss PERA-includable salary in general terms with you, they will not make a verbal determination regarding a specific plan. PERA will send you a written determination regarding your plan at the conclusion of the review process.

## FOR MORE INFORMATION

- » Call PERA's Employer Relations team at 1-800-759-7372 ext. 3724.
- » Email the Employer Relations team at [ercontributions@copera.org](mailto:ercontributions@copera.org).
- » Visit the "Employer" page on PERA's website at [www.copera.org](http://www.copera.org).
- » Visit PERA's main office at 1301 Pennsylvania Street in Denver.