

Volume No. 1—Policies and Procedures	TOPIC NO.	50425
Function No. 50000—Payroll Accounting	TOPIC	GROUP and OPTIONAL LIFE INSURANCE
Section No. 50400—Deductions	DATE	July 2009

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Overview

Group Life Full and part-time classified salaried employees and faculty are covered by the Group Life Insurance plan administered by the Virginia Retirement System (VRS). Coverage is based on annual salary rounded up to the next \$1,000 and doubled for natural death, and double that amount for accidental death. Agencies are charged for the cost of group life coverage during payroll processing based on a rate established by law.

Optional Life Employees covered by group life may purchase additional life insurance coverage for themselves, their spouse or children through the Optional Life Insurance Plan administered by VRS. Spouses are eligible for up to 50 percent of the maximum amount of members' optional group life insurance coverage. Optional coverage for minor children who are at least 15 days of age may be purchased in increments of \$10,000, \$20,000 or \$30,000, depending on the level of coverage selected. *Four coverage options are available:

Option	Employee Coverage	Spouse Coverage	Children Coverage
1	1 x Salary	.5 x Salary	\$10,000
2	2 x Salary	1 x Salary	\$10,000
3	3 x Salary	1.5 x Salary	\$20,000
4	4 x Salary	2 x Salary	\$30,000

Employees pay for additional optional life coverage through payroll deduction. Flat monthly premiums apply for children's coverage based on the option selected, regardless of the number of children. The OGL premium for the employee (and spouse) is determined for the entire calendar year based upon the age of the member (and spouse) at the first of each calendar year. The rates are shown on the Optional Life Premium Calculation Worksheet found using the link provided on the DOA website under Payroll Operations Forms.

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Overview, Continued

Premium Updates Each January Minnesota Life will provide DOA with a file of calculated premium rates. DOA will use this file to create transactions to automatically update participant optional group life deduction amounts (deduction 035). Manual calculations and updates are only required for new deductions and changes to coverage options during the year.

Audit Reports The following reports are produced as a result of the annual premium update:

Report	Description
U024 – Optional Group Life Premium Listing	Lists the employee’s employee number, name, total premium, member birth date, coverage code, coverage amount, spouse birth date, coverage code, coverage amount, and premium
U025 – Optional Group Life Error Report	Lists any record supplied by Minnesota Life that does not have a corresponding record in CIPPS or that has a terminated record. Beside the name and employee number will either be a message ‘No matching employee master file record found’ or ‘Employee terminated’. These items should be researched accordingly.

Salary Base and Rates Premium rates for all insurance coverage are applied to the full salary amount including any permanent shift or pay area differentials. Premium rates also apply to workers’ compensation and VSDP payments made by agencies (see CAPP Topics 50520 and 50525).

Deduction Processing

Establishing Group Life Deductions Deduction 020, GRPINSR, is automatically established on H0ZDC when the appropriate retirement code is entered on HMCU1. No other entry is required. See CAPP Topic 50410, *Retirement – VRS and ORP*, for additional information on retirement codes.

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Deduction Processing, Continued

Establishing Optional Group Life Deductions For new enrollments, deduction 035, OPT LIFE, must be established on H0ZDC. Complete the command line and sub-command line as referenced in CAPP Topic No. 50110, *CIPPS Navigation*.

-----EMPLOYEE DEDUCTIONS-----

COMPANY--> 00230 EMPLOYEE NUMBER--> 1111111700
NAME-----> GATL GOLF

NO	NAME	CALC	GN	FR	PRTY	AMT/PCT	START DATE	END DATE	GOAL	UTILITY	DED MTD	DED YTD
69	DCCHKING					1.00000	00/00/0000	00/00/0000	.00	200000000100000000	.00	.00
35	OPT LIFE					4.57	00/00/0000	00/00/0000	.00	000000000000000000	.00	.00
0							00/00/0000	00/00/0000	.00		.00	.00
0							00/00/0000	00/00/0000	.00		.00	.00

A205H-END OF LIST
09/10/04 10:32:53 1 M3LL CIDL

H0ZDC

DEDUCTION NO. Enter '035' in the deduction number field.

NAME This information is displayed when the screen is complete.

AMT/PCT Enter a dollar amount to be withheld.

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Deduction Processing, Continued

<i>GOAL</i>	Do not enter.
<i>UTILITY</i>	Do not enter.
<i>Calc</i>	This information is displayed when the screen is complete.
<i>GN</i>	This information is displayed when the screen is complete.
<i>FR (Frequency)</i>	Enter any valid value, usually 09 .
<i>PRTY</i>	Do not enter.
<i>START DATE</i>	Do not enter.
<i>END DATE</i>	Do not enter.
<i>DED MTD</i>	Total month-to-date withholding for this deduction. Do not enter.
<i>DED YTD</i>	Total year-to-date withholding for this deduction. Do not enter.

Optional Group Life Premium Calculation Other than the automated update each January, the optional life premium entered on H0ZDC must be calculated manually. In the example that follows the employee is age 56 and spouse age 50, as of the first of the calendar year, annual salary is \$25,023 paid semi-monthly, option 2 of optional life is selected, with 2 children:

Note: Separate calculations for the employee and the spouse must be performed to determine the Optional Group Life premiums due.

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Deduction Processing, Continued

Step	Action	Example
1	<i>Round: annual up to the next \$1,000</i>	\$26,000
2	<i>Multiply: rounded annual salary by the selected coverage option for the employee</i>	$\$26,000 \times 2 = \$52,000$
3	<i>Multiply: rounded annual salary by the spouse coverage rate for option selected</i>	$\$26,000 \times 1.0 = 26,000$
4	<i>Divide: the result in Step 2 by 1000, the cost per thousand for employee coverage</i>	$\$52,000 \div 1000 = 52$
5	<i>Divide: the result in Step 3 by 1000, the cost per thousand for spouse coverage</i>	$\$26,000 \div 1000 = 26$
6	<i>Multiply: Step 4 results by optional life rate for the employee's age as of the first of the year</i>	$52 \times \$.43 = \22.36
7	<i>Multiply: Step 5 result by optional life rate for the spouse's age as of the first of the year</i>	$26 \times \$.22 = \$ 5.72$
8	<i>Add: cost for children coverage</i>	\$0.80
9	<i>Combine: employee/spouse and children premiums for total monthly premium</i>	$\$22.36 + \$5.72 + \$0.80 = \28.88
10	<i>Multiply: Step 9 result by 12 for annual premium</i>	$\$28.88 \times 12 = \346.56
11	<i>Divide: Step 10 result by number of pay periods for premium per pay period. Enter on H0ZDC</i>	$\$346.56 \div 24 = \14.44

Note: Example uses rates in effect for 2009.

Deduction Overrides

In some cases, overrides are necessary to ensure the appropriate group life charge is made or to collect premium adjustments for optional group life. For example, when an employee receives some type of special pay such as workers compensation or VSDP payments, premiums for group life may be under-charged or over-charged by CIPPS. The deduction override process allows one-time adjustments to the employee masterfile record to make necessary adjustments. Refer to CAPP Topic No. 50605, *Tax and Deduction Override*, for procedures.

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Imputed Life

Introduction Imputed income is the addition of the value of non-cash compensation to an employee's taxable wages in order to properly withhold income and employment taxes from the wages. For group insurance, imputed life is the taxable value of group life coverage in excess of \$50,000.

Tax Implications Imputed life is subject to FICA (OASDI and HI) tax. Although federal and state income taxes are not withheld, imputed life is reported as taxable federal and state income on Form W-2. The taxable value is determined using the IRS Uniform Premium Cost Table, commonly referred to as Table 1. The table quotes a value per \$1,000 of coverage in excess of \$50,000 based on the age of the employee as of December 31 of the current calendar year.

Employee Age at Year-end	Uniform Premium Cost Rate
Under 25	\$0.05
25-29	\$0.06
30-34	\$0.08
35-39	\$0.09
40-44	\$0.10
45-49	\$0.15
50-54	\$0.23
55-59	\$0.43
60-64	\$0.66
65-69	\$1.27
70 and above	\$2.06

(Confirmed as of 2009)

CIPPS Automatic Processing CIPPS automatically processes and withholds FICA tax for imputed life on the first pay period of each month using the applicable Table 1 values based on the employee's age as of December 31 of the current calendar year and the imputed life amount entered on H10AS. If the employee salary changes mid-month and the updated imputed life amount is entered on H10AS, CIPPS will self-adjust the imputed life income and the corresponding FICA tax in the second pay period of the month.

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Imputed Life, Continued

NO	Enter '014' in the No. field to establish Special Pay 014 on the employee's masterfile record.
NAME CALC	This information is displayed by the system when the screen is complete.
HOURS CHK IND	These fields are not used in the imputed life calculation.
TAX DESC	Enter a "2". This value indicates that taxes are not paid on this amount, but the amount is added to the employee's taxable fields.
DED DESC	Leave zero.
RATE AMT	Enter the imputed life amount.
FREQ	Enter "09". This indicates that the employee is to be paid this special payment every payday.
LAB CD	Not Used.

Incorrect Imputed Life

To help identify imputed life errors, request Report 852, Automatic Special Pay 14 – Incorrect Imputed Life Amount for Active, Salaried Employees. This report identifies employees who have differences between their calculated Imputed Life rate and their actual H10AS rate. All entries should be investigated and necessary corrective action taken. Common causes and recommended corrective action for records listed on this report follows:

If...	Then...
No birth date – indicated by "X" in BD column,	Enter employee's birth date on HOBID.
No difference listed and birth date is entered properly,	Check H10AS frequency for SP#014 – should be "09"
	Check H10AS Tax descriptor for SP#014 – should be "2"

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Imputed Life, Continued

YTD Adjustments

Correcting the employee masterfile only corrects the imputed life calculations of current and future months. Imputed life calculated in error for prior quarter/months must be manually re-calculated and YTD Gross and Special Pay 014 amounts corrected through payroll, using manual pay sets on HTMM1 or HTPSA. See CAPP Topic No. 50705, *Employee and Tax Masterfile Updates*, for more information.

Calculations to Correct Erroneous Imputed Life Amounts

It may be necessary in certain circumstances (i.e., absence of birth date on H0BID, erroneous amount entered on H10AS) to correct the imputed life amount. In these instances, additional manual calculations must be performed using IRS Table 1 values to determine the value per \$1,000 of life insurance in excess of \$50,000 for one month.

In the example that follows, the employee is age 56, annual salary of \$25,023.

Step	Action	Example
1	Round annual salary up to next \$1,000 and multiply by 2	$\$26,000 \times 2 = \$52,000$
2	Subtract \$50,000 from Step 1 result	$\$52,000 - \$50,000 = \$2,000$
3	Divide Step 2 result by \$1,000	$\$2,000 \div \$1,000 = 2$
4	Multiply Step 3 result by the applicable Table 1 value based on the employee's age as of the end of the current calendar year.	$2 \times \$0.43 = \0.86 per month

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Imputed Life, Continued

The monthly imputed life value must be applied to every month requiring adjustment. If a salary rate change occurred during the period of time to be adjusted, a separate value must be calculated for each salary rate. Then the monthly value must be multiplied by the number of months at each salary rate to determine the imputed life value for the entire time period.

HTPSA

Make adjustments to imputed life amounts by accessing HTPSA using routine CIPPS navigation and complete the following transaction lines:

- 503 Line** **CK NO.** Enter the agency referenced check number.
- CHK DT** Enter the pay period and check date being affected by
- BEG DT** the adjustment.
- END DT**
- +/- Enter a '+' or '-' depending the type of adjustment.
- INDICATOR**
- Q/Y** Enter a 'Y' indicating the adjustment is made to year-
- INDICATOR** to-date totals.

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Imputed Life, Continued

HTPSA, continued

500 Line	GROSS	Enter the amount of the adjustment.
	+/- INDICATOR	Enter a '+' or '-' depending the type of adjustment.
	Q/Y INDICATOR	Enter a 'Y' indicating the adjustment is made to year-to-date totals.
600 Line	PAY	Enter a '014' indicating an adjustment to the imputed life special pay.
	SP PAY AMOUNT	Enter the amount of the special pay adjustment.
	+/- INDICATOR	Enter a '+' or '-' depending the type of adjustment.
	Q/Y INDICATOR	Enter a 'Y' indicating the adjustment is made to year-to-date totals.

Note: Batch balancing occurs at the bottom of the screen. TOTAL PAYS should equal GROSS. The employee needs to receive regular pay in order for FICA to be self-adjusting. Refer to CAPP Topic 50700, *Employee and Tax Masterfile Updates*, for additional information.

Termination Guidelines

Terminating Employee Deductions	Under VRS guidelines, when an employee terminates mid-month, group life and optional life premiums must be collected for the entire final month. Use deduction overrides. Refer to CAPP Topics 50320, <i>Terminations</i> , and 50605, <i>Tax and Deduction Overrides</i> , for additional information.
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VRS Group Life Reconciliation

Group Life VRS Reconciliation

To ensure employee premiums are accurately reported to VRS, agencies are required to reconcile group life insurance deductions with VRS and resolve any discrepancies monthly. Agencies use the following monthly CIPPS and VRS reports to perform the reconciliation:

Report	System	Description
U016, VRS-52 Monthly Contribution Worksheet	CIPPS	Shows employer's total contributions for the month for group life insurance. Compare with VRS-50 Report.
U044, VRS Discrepancy Report	CIPPS	Produced only when the agency has a void check or the Creditable Compensation, Base Life, or Health Care Creditable Compensation times the effective rate does not equal contributions reported. Lists employees with differences that may require research.
U046, Company Summary of Retirement Deduction Errors	CIPPS	Error listing that may indicate potential reporting problems.
VRS-50, Statement of Account	VRS	Includes every transaction posted to employer's account during month noted at top of page.
VRS-1500, Employer Payroll Dollar/Service Suspended Details	VRS	Report of member records which have been placed into suspense.
VRS-1501, Error Adjustment Report	VRS	Used to report adjustments, resolve suspense items and report calculations outside of payroll system (e.g. WTA).

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VRS Group Life Reconciliation, Continued

Group Life VRS Reconciliation, continued

Report	System	Description
VRS-1500R, Final Membership Statement	VRS	Shows adjustments that appear on Statement of Account for report in Paydate field. Sent when members clear suspense.

VRS Monthly Reconciliation Process

Activity for the reconciliation period is entered on the Reconciliation Worksheet developed by VRS. The worksheet is divided into three parts described below. Agencies complete the Reconciliation Worksheet utilizing the reports listed above. Reference the VRS Employer Payroll Manual for more information on the monthly reconciliation process and for a copy of the Reconciliation Worksheet.

Part	Description
A	CARS expenditure transactions for VRS contributions are reconciled to Monthly Contribution Worksheet (U016). The VRS Discrepancy Report (U044) and the Company Summary of Retirement Deduction Error (U046) should also be reviewed for an explanation of discrepancies existing between amount paid and the amount due.
B	From the Statement of Accounts (VRS-50), list those transactions for the month being reconciled. This will assist the agency in identifying discrepancies for the current reporting period. A Membership Report (VRS-1500) should be completed for any changes not reflected on the VRS-50 for the reconciliation month.
C	Once the agency receives a “cleared” VRS-1500R, Part C is completed. This section of the worksheet identifies the total amount of the adjustment to bring the agency account into balance for the reporting period. An IAT for the adjustment amount must be prepared and forwarded to VRS, along with a copy of the reconciliation worksheet to adjust VRS records.

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Internal Control

Internal Control

Agencies must ensure group and optional group life plan deductions are established properly in CIPPS. A monthly reconciliation of group life contributions must be performed and any adjustments to correct employee records performed timely. Maintain employee enrollment information and any supporting documentation for audit purposes.

Records Retention

Time Period

Retain payroll records for five years or until audited, whichever is later.

Contacts

DOA Contact

Director, State Payroll Operations
Voice: (804) 225-2245
E-mail: Payroll@doa.virginia.gov

Payroll Business Analyst/Trainer
Voice: (804) 225-3120 or (804) 225-3079
E-mail: Payroll@doa.virginia.gov

Subject Cross References

References

CAPP Topic 50110, *CIPPS Navigation*
CAPP Topic 50410, *Retirement—VRS and ORP*
CAPP Topic 50520, *Workers' Compensation Non VSDP*
CAPP Topic 50525, *Virginia Sickness and Disability Program*
CAPP Topic 50705, *Employee and Tax Masterfile Update*
