

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	September 2014

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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 provides DOA with a file of calculated premium rates. DOA uses 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

All VRS percentage deductions (retirement and other post-employment benefits or “OPEBs”) are calculated on the same base value or “Contribution Base.” While the Contribution Base typically corresponds to the pay period salary displayed on HOBID, in some circumstances it does not (e.g., employee contract less than 12 months). Special Pay 099, CONTBASE, is systematically calculated using the values stored on HOBUE for Contract Length and Number of Pays.

Deduction Processing

Establishing Group Life Deductions

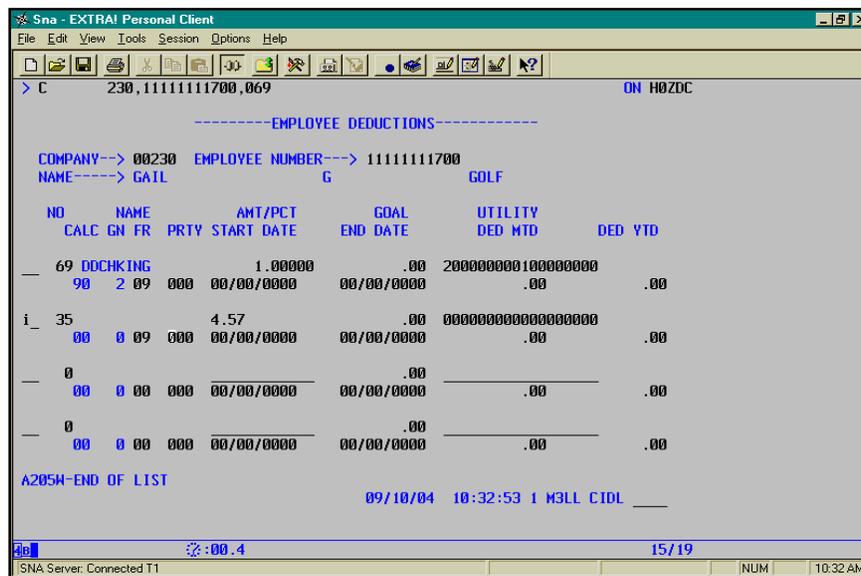
Deduction 120, GRP INSR, is automatically established on H0ZDC when the appropriate retirement code is entered on HMCU1. No other entry is required. See CAPP Topic 50410, *Retirement – VRS and ORP*, for additional information on retirement codes.

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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*.



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 *using the Optional Life Premium Calculation Worksheet found on the DOA website*. The example that follows illustrates how the amount is determined. In this example 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:

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Deduction Processing, Continued

Step	Action	Example
1	Round: annual up to the next \$1,000	\$26,000
2	Multiply: rounded annual salary by the selected coverage option for the employee	$\$26,000 \times 2 = \$52,000$
3	Multiply: rounded annual salary by the spouse coverage rate for option selected	$\$26,000 \times 1.0 = 26,000$
4	Divide: the result in Step 2 by 1000, the cost per thousand for employee coverage	$\$52,000 \div 1000 = 52$
5	Divide: the result in Step 3 by 1000, the cost per thousand for spouse coverage	$\$26,000 \div 1000 = 26$
6	Multiply: Step 4 results by optional life rate for the employee's age as of the first of the year	$52 \times \$0.33 = \17.16
7	Multiply: Step 5 result by optional life rate for the spouse's age as of the first of the year	$26 \times \$0.20 = \$ 5.20$
8	Add: cost for children coverage	\$0.80
9	Combine: employee/spouse and children premiums for total monthly premium	$\$17.16 + \$5.20 + \$0.80 = \23.16
10	Multiply: Step 9 result by 12 for annual premium	$\$23.16 \times 12 = \277.92
11	Divide: Step 10 result by number of pay periods for premium per pay period. Enter on HOZDC	$\$277.92 \div 24 = \11.58

Note: Example uses rates in effect as of July 2014.

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. To correct the group life amount use a special pay transaction for special pay 099, CONTBASE, to override the contribution base thereby collecting the corrected amount. Use a deduction override to collect the correct optional group life amount. Refer to CAPP Topic Nos. 50320, Terminations, 50605, Tax and Deduction Overrides, and 50515, Special Payments, for additional information.

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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 the premiums for 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
26-29	\$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

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 This information is displayed by the system when the screen is complete.
CALC

HOURS These fields are not used in the imputed life calculation.
CHK IND

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

Report 852, Automatic Special Pay 14 – Incorrect Imputed Life Amount for Active, Salaried Employees, should be requested to help identify imputed life errors. 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 HOBID, 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

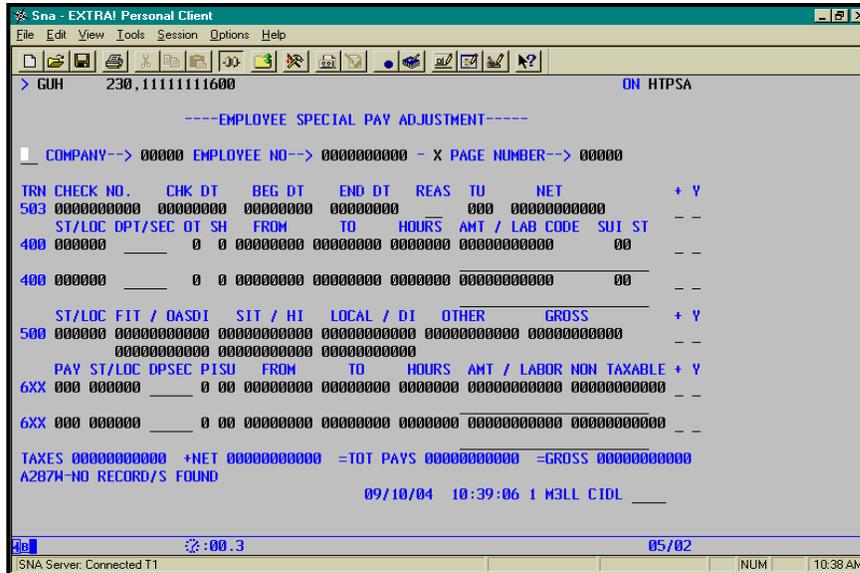
The monthly imputed life value must be applied to every month requiring adjustment. If a salary rate change occurred during the period of time to be adjusted, a separate value must be calculated for each salary rate. Then the monthly value must be multiplied by the number of months at each salary rate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

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Imputed Life, Continued

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 on the type of
 INDICATOR adjustment.
- 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 on 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 on 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 50705, *Employee and Tax Masterfile Updates*, for additional information.

Termination Guidelines

Terminating Employee Deductions

When an employee terminates mid-month, group life and optional life premiums must be collected for the entire final month under VRS guidelines. Use a deduction override to collect the additional optional group life amount. Use a special pay transaction for special pay 099, CONTBASE, to increase the contribution base, thereby collecting the additional group life amount. Refer to CAPP Topic Nos. 50320, Terminations, 50605, Tax and Deduction Overrides, and 50515, Special Payments, 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. See CAPP Topic No. 50410, RETIREMENT—VRS and ORP, for information regarding the VRS Retirement Reconciliation.

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) 225-3065 or (804) 225-2004
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Subject Cross References

References

CAPP Topic 50110, *CIPPS Navigation*
 CAPP Topic 50320, *Terminations*
 CAPP Topic 50410, *Retirement – VRS and ORP*
 CAPP Topic 50515, *Special Payments*
 CAPP Topic 50520, *Workers’ Compensation Non VSDP*
 CAPP Topic 50525, *Virginia Sickness and Disability Program*
 CAPP Topic 50605, *Tax and Deduction Overrides*
 CAPP Topic 50705, *Employee and Tax Masterfile Update*
