

Volume No. 1—Policies & Procedures	TOPIC NO.	50415 – Cardinal
Section No. 50400—Deductions	TOPIC	RETIREMENT— SALARY REDUCTION PLANS
	DATE	November 2015

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Overview

Introduction As an incentive to save for retirement, Internal Revenue Code (IRC) allows employees to defer tax on wages that are invested in certain retirement plans under salary reduction agreements. Two plans are available to Commonwealth employees, §457(b) (deferred compensation) and §403(b) (tax-sheltered annuity; *limited eligibility*) plans.

Deferred Compensation

Introduction All employees of the Commonwealth, including wage employees and elected or appointed officials, are eligible to defer a portion of their salary from income taxes through participation in the tax-deferred investment program administered by the Virginia Retirement System (VRS), called the Commonwealth of Virginia Deferred Compensation Plan. The amount deferred is deducted from gross pay prior to computation of Federal and State income taxes. Deferred Compensation contributions are transferred to a financial services company (hereafter called the Plan Record Keeper) for investment. The amounts deferred, plus any accumulated interest, are not taxed until a distribution is made to the participant, usually at retirement. IRC §457(b) governs state deferred compensation plans.

**New Hires/
Rehires** Effective January 1, 2008, all newly hired or rehired salaried employees will be automatically enrolled in deferred compensation. This includes employees whose classification changes from wage to salary. Shortly after hire a letter is generated and distributed to the employee. If the employee does not opt out of the automatic enrollment within 90 days of the date of the letter, payroll deductions will automatically be established for the employee at an amount of \$20 per pay period (plus a \$10 cash match, *if applicable*).

Employees may self-enroll online or by phone prior to being auto enrolled. If the employee opts out of enrollment within 90 days of receiving his automatic enrollment notice he will not be auto-enrolled. Employees may opt out online or by telephone. If the employee who was auto-enrolled opts out 90 days after the first automatic contribution is posted to the record keeper's system he may request, at that time, a refund of his contribution. (Note: The employer cash match will be forfeited.) Employees who have a deferred compensation plan account balance from a previous period of employment or who are actively contributing to a 403(b) plan will not be automatically enrolled, but may still self-enroll.

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Contribution Limits

A minimum deferral of \$10 per pay period is required to participate in the Deferred Compensation Plan. The annual maximum is documented in the Calendar Year End Payroll bulletin each year and also on the Virginia Retirement System website.

Includable Compensation

Includable compensation is the annual salary less the annual pre-tax purchase of prior service credit. Other pre-tax deductions, such as premium conversion, are not subtracted from the annual gross salary in determining includable compensation. Deferrals can also be made from eligible leave payouts and other types of compensation discussed later in this topic.

Additional Contribution Provisions

Two additional contribution provisions are available to participants.

- Standard Catch Up
- Age 50+

With the Standard Catch Up provision the participant makes additional contributions (based on undeferred amounts from previous years) to the plan during the three years before reaching normal retirement age. Normal retirement age is designated by the employee. This is any age at which the employee is eligible for an unreduced retirement benefit up to age 70 ½. The employee is not required to retire when he reaches his “normal retirement age” but may no longer use the standard catch-up. This provision cannot be used in the calendar year in which the participant reaches retirement age.

The Age 50+ Catch Up provision allows those participants attaining age 50 or over during the calendar year to contribute *an additional amount above the allowable maximum. This additional amount is set annually by the IRS.*

The Age 50+ provision and the Standard Catch Up provision cannot be used in the same calendar year. For more information, visit the Defined Contribution tab on the VRS website.

Online Enrollment

Employees can enroll, change contribution amounts, or stop contributions online using the Defined Contribution Plan tab on the Virginia Retirement website at www.varetire.org or by telephone at 1-VRS-DCPLAN1 (1-877-327-5261). The participant will be required to provide deferral allocations along with beneficiary designations for new enrollments. Payroll actions will take effect on the first available pay date based on plan rules and administrative processes. The initial contribution/change can be effective no earlier than the first available pay date in the month following the month in which the employee enrolled or requested the change

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Transfers Between Agencies

Employees transferring from one CIPPS agency to another must re-enroll online or via phone with the Plan Record Keeper. The termination at one employer automatically terminates the employee election and zeros the expected contributions in the Plan Record Keeper’s system. To ensure there is no disruption in contributions, the employee must contact the Plan Record Keeper within a few days of the employee transfer transaction performed in PMIS. The enrollment transaction for the new agency will come through on the next interface from the Plan Record Keeper (does not apply to VDOT).

Processing Summary

The following table summarizes processing responsibility for transactions affecting Deferred Compensation:

Election	Processed By:			VRS Review
	Method*	Plan Record Keeper	Payroll Office	
New Enrollment/Reinstate Contribution	1**, 2, 3	X		
Increase/Decrease Contribution Amount	2, 3	X		
Suspend Contributions	2, 3	X		
Age 50+ Catch-Up	2, 3	X		
Standard Catch-Up	1	X		X
Uniformed Service Leave Make-Up	1	X		X
One-time Change in Deferral Amount	1		X	
Enrollment for Employee Transferring from Another State Agency	2, 3	X		

*Method: 1 – Paper (**for wage) 2 – Online 3 - Telephone

Automated Establishment of Deductions

With the exception of one-time deferral changes, all other activity for deferred compensation deductions must be processed through an automated interface between the *Plan Record Keeper* and DOA. A file is received on a predefined schedule identifying the activity entered in the *Plan Record Keeper’s* system either through data entry by the *Plan Record Keeper* or by employee online activity on the Defined Contribution Plans website. The data in these files generate applicable changes to both the deferred compensation deduction (#038) and the deferred compensation cash match (#045).

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Reports

In addition to the 1006, Change Listing Report, the following two reports are automatically produced each pay period for review the day following the file transfer date:

- U062, DC/CIPPS DEFERRED COMP/CASH MATCH UPDATE LISTING – Includes the automatic enrollments for the 457 Deferred Compensation Plan and transactions for employees who opt out.
- U063, DC/CIPPS DEFERRED COMP/CASH MATCH ERROR REPORT – Provides a list of transactions that did not post to CIPPS for various reasons.

Remittance Process

DOA transfers deferred compensation deduction contributions to the Plan Record Keeper on payday. Upon receipt of participant contributions, the Plan Record Keeper systematically allocates contributions to the appropriate Plan investment fund based on the participant's pre-defined allocations.

Benefit Coordination

Employee voluntary contributions to the VRS Hybrid Retirement Plan are also Section 457 contributions. The coordination of contributions made for Deferred Compensation (#038) and Voluntary Hybrid (#016) to ensure annual limits are not exceeded is performed systematically within CIPPS.

Leave Payouts

In accordance with VRS policy, contributions to deferred compensation may be made from the following leave payouts:

Annual	Sick	Recognition
Overtime	On-call	Bonus
Disability Credits	Compensatory	

A Payroll Authorization - One-Time Deferral Form electing the amount to be deferred from the leave payout must be submitted to the agency payroll office while the employee is still an active employee and no later than the end of the month prior to the month in which the amounts would otherwise be paid or made available to the employee. *Due to required FICA taxes 100% of the payout can never be deferred. A Maximum Deferral spreadsheet found at Payroll Operations Forms should be used to determine the amount that can be deferred.* Once processed, these forms are to be faxed to the Plan Record Keeper.

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Deferred Compensation, Continued

Program Administration Policies and procedures governing the administration of the Virginia Deferred Compensation Plan are located on the VRS web site at www.varetire.org.

Tax-Sheltered Annuities

Introduction The Commonwealth of Virginia provides payroll deduction for employees eligible to participate in Tax-Sheltered Annuities (TSA). TSAs are pretax products available only to employees in qualifying positions at higher educational institutions or qualifying educational agencies. Each agency is responsible for ensuring compliance with IRC §403(b) which governs tax sheltered annuities. IRS Publication 571 explains the tax rules that apply to a 403(b) plan.

Contributions are administered through a Third Party Administrator (TPA). The TPA is responsible for maintaining a network of participating vendors, notifying agencies of enrollments and related payroll deductions, and distributing payroll deducted contributions to appropriate vendors. All activity for annuity deductions must be processed through an automated interface between the TPA and DOA. Each pay period an automated file for updating CIPPS is received 5 work days before final certification. Depending on the vendor, an administrative fee may apply that must be charged to the employee through payroll deduction.

Reports In addition to the 1006, Change Listing Report, the following two reports are automatically produced each pay period for review the day following the file transfer date:

- U147, MISC INS/ANNUITY/FEE UPDATE LISTING – Provides a list of transactions that updated CIPPS based on employee enrollment/change/termination of miscellaneous insurance or annuities and associated fees and cash match amounts.
- U148, MISC INS/ANNUITY/FEE ERROR REPORT – Provides a list of transactions that did not post to CIPPS for various reasons.

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Tax-Sheltered Annuities, Continued

Contribution Limits Deferral limits are established by the IRS each calendar year and communicated through a Payroll Bulletin.

15 Year Rule Plan participants with at least 15 years of service are eligible to increase the elective deferral limit by up to \$3,000. For more information reference IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans).

50+ Catch-Up Provision Participants who will be age 50 or older during the calendar year may make additional contributions.

Central Remittance Process Employee contributions are electronically transferred by DOA to the TPA each payday. The TPA then distributes payroll deducted contributions to the appropriate vendor within 3 business days.

Administrative Processing Overview The TPA provides the tax sheltered annuity vendors with standard Salary Reduction Agreement (SRA) forms. The SRA form is the only acceptable form to start, stop or change deductions. *All pre-tax SRAs will be initiated between the Vendor/Agent and the employee, but also require Employer signature. This form only authorizes the agency to reduce the employee's salary by the amount to be sent to the investment provider by the agency on behalf of the employee. This is not an internal investment provider application form to establish the 403(b) account.* The TPA requires specific information *provided on the SRA* in order to establish the employee record in the system. The amount to be withheld is communicated by the TPA to the agency via the automated interface and reports accessed via the TPA website.

Administrative Fees A fee is required by the TPA to cover costs for administering the program. This fee is paid by some vendors. For those vendors who do not pay the fee, an administrative fee must be charged to employees. The administrative fee deduction is established in CIPPS at the same time the misc insurance or *annuity* deduction is established.

TPA Administration For more information on TPA processing, access the TPA Administrative Manual on the DOA website at <http://www.doa.virginia.gov/Payroll/TPA/SUPPINSPAYROLLMANUAL.PDF>
For detailed information regarding network providers and the vendor fee status, visit the TPA website at www.fbmc-benefits.com/VaProviderNetwork/index.asp.

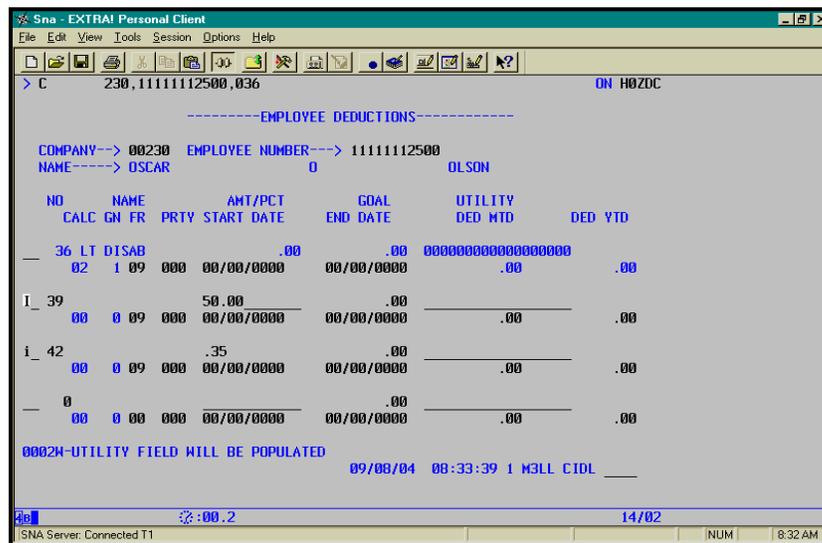
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Establishing Deductions

Online Data Entry

While deduction activity for Deferred Compensation/Annuity/Cash Match amounts should be largely controlled by the automated interfaces, there may be times when manual data entry will be required. Access the Employee Deductions screen (H0ZDC) as instructed in CAPP – Cardinal Topic No. 50110, *CIPPS Navigation*. Cash Match Deduction procedures are discussed in CAPP – Cardinal Topic 50420, *Retirement – Cash Match Plans*.



**No
(Required)**

Enter applicable deduction number:

If...	Then...
038	Deferred Compensation
039	TSA
042	TPA Administrative Fee

NAME

Do not enter. The system will display the corresponding deduction name after the information is entered into the system.

CALC

Do not enter. This field indicates the type of calculation to be performed. This field is displayed by the system.

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AMT/PCT (Required) GOAL Enter the dollar amount, to two decimal places, to be withheld each pay period.

IF Ded.	THEN
038	Maximum contribution allowed is governed systematically; only additional amounts allowed for +50 or Standard Catch Up should be entered in Goal on H0ZDC.
039	Enter the total annual contribution amount.
042	Do not enter.

UTILITY

If Ded.	Then...
038 and 039	No data entry is required. This field is automatically populated with the appropriate setup '000000000022200000' when establishing pre-tax deductions.
042	Do not enter.

CALC/GN Do not enter.

FR Enter the appropriate frequency for the deduction. Usually '09'.

PRTY Do not enter.

START DATE (OPTIONAL) Not used for these deductions.

END DATE (OPTIONAL) Not used for these deductions.

DED MTD Do not enter.

DED YTD Do not enter.

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Internal Control

Internal Control Agencies must ensure proper documentation exists prior to initiating any change to an employee masterfile and those changes are made accurately and timely.

Records Retention

Time Period All payroll-related documents and records should be retained for a period of 5 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 Support Analyst/Trainer
Voice: (804) 786-1083
E-mail: Payroll@doa.virginia.gov

Subject Cross References

References CAPP – Cardinal Topic No. 50110, *CIPPS Navigation*
CAPP – Cardinal Topic No. 50420, *Retirement – Cash Match Plans*

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CARS to Cardinal Transition

**Cardinal
Transition**

CIPPS interfaces to both CARS and Cardinal. No additional action needs to be taken by agencies in order to record CIPPS entries. After CARS has been decommissioned, agencies will no longer use NSSA to establish programmatic data in CIPPS. Instructions on how to load this information to CIPPS will be distributed at a later time.
