

Volume No. 1 - Policies & Procedures	TOPIC NO.	50525 – Cardinal
Section No. 50500—Paying the Employee	TOPIC	VIRGINIA SICKNESS AND DISABILITY PROGRAM
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Overview

Introduction

The Virginia Sickness and Disability Program (VSDP) is administered by the Virginia Retirement System (VRS) in partnership with a VSDP third party administrator (VSDP TPA). VSDP provides state employees with supplemental income while out of work due to a short-term or long-term disability.

This topic covers Cardinal HCM requirements for participants in the program. Minimal information is provided in this topic concerning eligibility, leave allotments, benefits, and exceptions. Agencies should refer to VRS VSDP Handbook and DHRM policy 4.57, Virginia Sickness and Disability Program for detailed program rules.

Agencies must develop internal policies and procedures encompassing all program rules promulgated by VRS and DHRM. Agencies must ensure the accuracy of:

- VSDP Benefits
 - Pay Classification
 - Employer and Employee Paid Deductions
 - Leave allocation and usage
-

Eligibility

Eligible employees include state employees and faculty who are regularly employed on a full-time, salaried basis and who are members of VRS, State Police Officers' Retirement System (SPORS), and Virginia Law Officers' Retirement System (VaLORS). Part-time classified state employees who earn sick leave and work in a salaried position at least 20 hours a week are also eligible.

Ineligible employees include:

- Members of the Judicial Retirement System
- Employees of political subdivisions
- Wage Employees and part-time adjunct faculty
- Employees participating in Optional Retirement Plans (ORP) or alternative retirement plans

All full and part-time classified employees hired after January 1, 1999, who are active members of VRS, must participate.

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Short-Term Benefits VSDP provides income replacement to disabled employees at three levels, 100%, 80%, and 60% of pre-disability income, for varying periods determined by the employee's length of state service. Short-term benefits are paid by agencies through payroll.

Long-Term Benefits VSDP emphasizes the goal of returning employees to work when medically able. However, if the employee is not able to return to work, VSDP provides income equal to 60% of the employee's pre-disability income compensation through long-term benefits. The VSDP TPA pays long-term benefits, and the employee is removed from the agency's payroll.

Leave Each year employees are given Sick Leave and Family and Personal Leave balances for absences of seven or fewer days. The Family and Personal Leave (in addition to Annual, Compensatory, Overtime Leave, and accumulated Disability Credits) can be used to supplement the 60% and 80% income-replacement levels up to 100% of the employee's semi-monthly salary. When this is elected, balances are charged as follows:

Income Replacement	Personal Leave Charged	Disability Credit Charged
80 percent	1.6 per day	8 per day
60 percent	3.2 per day	

Waiting Period Employees cannot receive short-term benefits until they have been absent from work for a period of seven calendar days. Generally employees:

- Can work up to 20 hours during the waiting period if full-time; 10 hours if part-time
- Must use personal leave or work a maximum of 20 hours and use leave to complete FLSA workweek requirements to receive regular pay during the waiting period, or be docked for lost time

VSDP provides for a waiver of the waiting period in certain circumstances. Such waivers are specified in Action Reports provided by the VSDP TPA.

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Income Replacement

The number of workdays at each income replacement level is determined by the length of state service and whether the absence is non work-related or work-related as follows:

Months of Service	Non-Work-Related		
	Income Replacement Level		
	100%	80%	60%
Less than 60	5	20	100
60 to 119	25	25	75
120-179	25	50	50
180 or more	25	75	25

Months of Service	Work-Related		
	Income Replacement Level		
	100%	80%	60%
Less than 60	65	25	35
60 to 119	85	25	15
120-179	85	40	0
180 or more	85	40	0

Synopsis - VSDP Process, Non Work-Related Disability

Employees who are disabled through personal illness, injury, or pregnancy contact the VSDP TPA and provide information related to their disability. The VSDP TPA contacts the employee's licensed treating professional (LTP) and issues an Initiation Action Report alerting the agency that a VSDP claim may be forthcoming. The VSDP TPA determines the validity of the employee's claim following a complete review of the information provided by the employee and LTP. If the claim is:

- Not Approved - the VSDP TPA issues a Closure Action Report and no further action is required
- Approved - the VSDP TPA issues a Determination Action Report outlining the income replacement levels and timeframes and the period of authorization (Authorized End Date). Payroll processes taxable payments according to the information provided on this report. Payments may be complicated by personal leave or disability credit usage and/or part-time work in an approved VSDP return-to-work program

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**Synopsis -
VSDP Process,
Non Work-
Related
Disability,
continued**

VSDP payments are authorized through the Authorized End Date on the most recent Action Report. Subsequent Determination Action Reports may be issued extending the Authorized End date based on medical information provided by the LTP. If the Authorized End Date is not extended and the employee has not returned to work, VSDP payments must stop. In the absence of appropriate authorizations, employees must use personal leave or go into a leave/no pay status for the time missed from work. If the Authorized End Date is extended retroactively, agencies may be required to process adjustments to pay, benefits, and leave including:

- Payroll adjustments to reclassify regular payments into the appropriate VSDP Special Payment
- One-time payments to employees where the employee went on lost time

VSDP claims continue until the employee returns to work full-time or the employee goes into a Long-term Disability status. If the employee is classified as Long-term Disabled, the employee is removed from the payroll and paid any accumulated personal leave balances. If the employee returns to work full-time, VSDP benefits stop and the employee is paid regular pay.

**VSDP Process,
Work-Related
Disability**

The Work-Related disability process requires careful coordination between the agency, DHRM, and the VSDP TPA. Work-Related disability benefits require an approved Workers' Compensation Claim relating to an on-the-job injury or illness. Under Work-Related disability processing:

- Workers' Compensation becomes the primary benefit, and VSDP becomes secondary
- Both the Workers' Compensation Benefit and the VSDP Benefit are tax-exempt
- The number of the Days of Income Replacement is different from non-work-related claims

As described in CAPP Topic No. 50520, *Workers' Compensation*, DHRM investigates and determines the eligibility of Workers' Compensation claims, which may take up to 60-90 days. All reporting requirements and functions concerning the Workers' Compensation process must be adhered to by the agency.

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VSDP Process, Work Related Disability,
continued

DHRM and the VSDP TPA communicate with each other and the employee's LTP during the eligibility determination period. During this period, the VSDP TPA may authorize the employee for Non Work-Related VSDP Benefits. If so, a Determination Action Report is issued describing the employee's income replacement levels and the agency will pay (taxable) Non Work-Related VSDP income replacement until the Workers' Compensation claim is approved. Once the agency has been reimbursed for the portion of the employee's lost time covered by Workers' Comp, the agency may be required to process adjustments to pay, benefits, and leave including:

- Payroll adjustments to reclassify regular payments or taxable VSDP payments made during the workers' compensation eligibility determination period into the appropriate non-taxable workers' compensation and VSDP special pay classification
- One-time payments to employees where the employee went on lost time

Once the employee returns to work full-time, or the employee goes into a long-term disability status, agencies must ensure the employee was paid correctly by performing a complete audit of the claim, ensuring all Workers' Compensation reimbursements due the agency have been received.

Calculation of the employee's payment is more complex due to the Workers' Compensation element. The employee has the same options to use personal leave balances or Disability Credits to bring their income replacement income up to their pre-disability semi-monthly salary. Since the Workers' Compensation award is the primary benefit, care must be taken to ensure that the employee does not receive a combined payment (Workers' Compensation, hours worked, personal leave usage, and VSDP benefits) of more than the employee's semi-monthly salary or approved income replacement level. However, because the Workers Comp benefit is based on the average weekly wage of the employee for the preceding 52 weeks, it is possible that the Workers Comp benefit may exceed the employee's normal semi-monthly rate (for example, if the employee was paid a substantial amount of overtime in the preceding year). In any event, the employee must be paid the full Workers Comp benefit amount and it is possible that no other leave or supplemental VSDP benefits are necessary if the amount exceeds the normal semi-monthly salary

Working While Receiving VSDP Benefits

Whenever possible, VSDP seeks to return employees to work, either full-time or part-time, with job modifications, or in another position. Employees in an approved VSDP return-to-work program while on disability may still receive VSDP benefits at the appropriate reimbursement level, as well as receive payment for all hours worked.

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Working While Receiving VSDP Benefits, continued

Note: See the VRS and DHRM publications for information concerning benefit processing requirements under the LTD-Working status. Employees may not transition to LTD-Working from regular STD. They must already be in a working status.

Proper and timely notification of hours worked (whether in-agency or not) and absences must be a priority to ensure accurate pay. Any combinations of regular pay, personal leave usage (including Disability Credits) and VSDP benefits should never exceed the employee's normal semi-monthly salary.

Payroll Summary

A HCM VSDP Calculations worksheet is available on the State Payroll Operations Forms page of the DOA website to assist agencies in correct calculation of VSDP benefits, for both non-work and work-related disabilities. A summary of payroll, benefits and leave processing required in conjunction with VSDP claims follows:

Period	Pay, Benefits, Leave Processing	Non-Work Related	Work Related
Day 1-7, Waiting Period	Employee works up to 20 hours and uses personal leave (regular pay) or leave/no pay, unless waiting period is waived.	X	X
	Agencies are reimbursed by DHRM if claim extends 21 days. Adjustments to leave usage for the waiting period may be required.		X
Day 8 to Authorized End Date (May be extended)	Pay short-term disability benefits at the appropriate income replacement level.	X	X
	Pay workers' compensation benefits.		X
	Process VRS, health insurance, and group life fringe benefits normally.	X	X*
	Employee continues to accrue Annual leave up to 60 calendar workdays. Extend indefinitely if STD/LTD-working; accrual based on state service and hours worked	X	X
	Employee may use personal leave balances and disability credits to supplement short-term benefits up to 100% of pre-disability salary.	X	X
Workday 125	Agency terminates employee.	X	X
	Employee receives payment for unused leave balances.	X	X
	Benefit processing stops.	X	X
	Employee begins receiving long-term disability payments.	X	X
	Workers' Compensation payments are mailed directly to employee's home		X

*Cannot be deducted from workers comp payment only; there must be some other form of compensation to cover amount of employee deduction.

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Coordination with Payroll, Benefits, and Leave

Importance of Timely Processing and Communication

Processing payroll, benefits, and leave for employees affected by either work-related or non work-related VSDP absences can be among the most complex areas of payroll administration. Due to the complexity of the VSDP program, agencies must establish policies and procedures outlining individual responsibilities under the program thus eliminating processing delays and/or poor communication, such as:

- Payroll, VSDP TPA, and DHRM are not notified timely of absences due to work-related injury
- Workers' compensation eligibility determination is delayed either by the agency or by DHRM
- Supplemental Reports of Lost Time are not submitted timely to DHRM resulting in a delay in Workers' compensation award payments to agencies
- Payroll is not notified of awards timely
- Leave usage information is not submitted timely
- Payroll is not notified of the employee's status timely

Delays and poor communication nearly always affect employee take-home pay, resulting in incorrect classification of pay (i.e., taxable vs. nontaxable, regular pay vs. special pays), under or overpayments, and incorrect benefit deduction processing. Clear and effective communication between Payroll Officers, Fiscal Officers, Benefit Administrators, and Human Resource Officers is necessary in order to prevent incorrect payments to employees.

Employee Benefits

Employee benefit entitlements vary depending on the status of the disability. Basic benefit levels are described in the table on the previous page. For more detailed information, see DHRM Policy No. 4.57, Sickness and Disability Leave Program, and the VRS VSDP Handbook.

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Virginia Retirement System Detail Action Report

Introduction Receipt of a Virginia Retirement Detail Action Report initiates and tracks any VSDP claim. The action Report tells what type of VSDP claim is to be processed, how much to pay, and for how long. Special attention is needed when reviewing this document to ensure proper processing and payment.

Detail Action Report The VRS Detail Action Report contains the following:

Description							
The first report received Informs HR/Payroll/BA that the VSDP TPA has been notified that an employee may process a claim. No Start Date will be indicated. No other action is required other than to file this information.							
The second report generated informs HR/Payroll/BA that the claim has been approved and payment of VSDP benefits is authorized. This Detail Action Report gives the following information:							
Absence Type	Informs processor of the disability classification.						
Workers' Comp Status	Gives the status of the Workers' Compensation claim.						
Start Date	Actual day the claim begins. (<i>Day 8</i>)						
Authorized End Date	Date through which the VSDP TPA has authorized benefits. Reflects the date through which benefits should be paid. If employee is not working as of this date, the employee must use personal leave or go on LWOP until a new determination report extending the Authorized End Date is generated by the VSDP TPA.						
STD End Date	125 workdays after the start date. Also the day LTD is effective.						
Waiting Period Waived information	Tells processor if the 7-calendar day waiting period was waived or not.						
	<table border="1"> <thead> <tr> <th>If...</th> <th>Then...</th> </tr> </thead> <tbody> <tr> <td>YES</td> <td>VSDP benefits begin immediately.</td> </tr> <tr> <td>NO</td> <td>Employee must use personal leave/hours worked to cover absence or go on LWOP.</td> </tr> </tbody> </table>	If...	Then...	YES	VSDP benefits begin immediately.	NO	Employee must use personal leave/hours worked to cover absence or go on LWOP.
If...	Then...						
YES	VSDP benefits begin immediately.						
NO	Employee must use personal leave/hours worked to cover absence or go on LWOP.						
Rate of Pay	Level of benefit due during a particular period.						
Effective Date of Pay	Breaks out the periods and percentages of pay for the employee. The date shown is the beginning date of the payment.						

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Virginia Retirement System Detail Action Report, Continued

Detail Action Report, continued

Closure Date	Date that the VSDP benefits end
Closure Reason	Reason that the VSDP benefits ended
Comments/ Note Section	Important case information may be transmitted in these areas
Authorization	May or may not have to be authorized depending on agency procedures

Cardinal HCM Processing

Long Term Disability Deduction

The long-term disability deduction is an agency-paid deduction that funds long-term disability benefits under the Virginia Sickness and Disability Program (VSDP). An agency charge is calculated for each participating employee in the VSDP program. VRS does not charge employers for employees who opted out of the VSDP program. VRS is the source for employee eligibility in the VSDP program. See CAPP Topic No. 50425, *Retirement*, for more information.

Earnings Codes

Short Term Disability is recorded on the timesheet but pay is only processed through a transaction entered using the Single Use Payroll Online Tool (SPOT). The following three earnings codes are available to record VSDP and related payments in Cardinal HCM. These payments default to the proper expenditure object code, while using the employee's established expenditure information.

Special Pay	Purpose	Taxability	Cardinal Account
STD	VSDP payments for non work-related disabilities	Taxable	5011530
WCL	VSDP payments for work-related disabilities	Non-Taxable	5011540
WCP	Workers' Compensation payments for work related claims	Non-Taxable	5011510

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Cardinal HCM Processing, Continued

Retirement Calculations

If the employee has been put into a non-auto status on the job data record, the additional pay transaction for VRS benefits will not process. An earnings SPOT must be entered to ensure that all employer-paid deductions for eligible benefits are recorded as if the employee is receiving 100% regular pay during the pay period.

VSDP Participation

Participation in the Virginia Sickness and Disability Program is indicated by a “Y” or an “N” in the third column of Eligibility Field 1 on the Benefit Program Participation page of the Job Data record. This information is updated from VRS records in the VNAV interface.

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Cardinal HCM Processing, Continued

Non Work-Related Procedures

The following chart illustrates the processing requirements VSDP benefits not related to a work-related injury.

If the employee...	Then...
Does not work any hours during the pay period,	Pay the short-term disability at the applicable income replacement percentage.
Works during the pay period or uses leave during the waiting period,	Pay the number of hours worked (or for which leave is used during the waiting period) at the appropriate hourly rate. Subtract this pay for hours worked from the full semi-monthly salary, and pay short-term disability at the applicable income replacement percentage on the remainder.
Is at the 60% or 80% income replacement level and wants to exchange available disability credits or personal leave for supplemental pay,	<p>Pay short-term disability at the applicable income replacement percentage. Also, pay the difference between the short-term disability pay and full semi-monthly salary as regular pay.</p> <p>For disability credits, at either 80% or 60% level – reduce disability credit balance by 8 times the number of work days in the pay period.</p> <p>For personal leave, at 80% level – reduce personal leave balance by 1.6 hours times the number of workdays in the pay period.</p> <p>For personal leave, at 60% level – reduce personal leave balance by 3.2 hours times the number of workdays in the pay period.</p>

Note: Pay processing is subject to sufficient disability credit and/or leave balances to obtain full semi-monthly pay. If insufficient balances are available or the employee chooses not to exercise full exchange eligibility, regular pay must be reduced proportionately. Ensure the full contribution is made for VRS, retiree health credit, group insurance, and LTD regardless of income replacement level.

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Cardinal HCM Processing, Continued

Work-Related Procedures

Work-related VSDP processing is identical except as follows:

- Pay workers' compensation benefit as specified in CAPP Topic 50520, *Workers' Compensation Non-VSDP*. Remember, the daily Workers' Compensation Indemnity Rate is derived from taking the Weekly Indemnity Rate and dividing it by the 7 days in a week.
- If the workers' compensation benefit is more than the short-term disability benefit at the applicable income replacement percentage, pay no short-term disability pay.
- If the workers' compensation benefit is less than the short-term disability benefit at the applicable income replacement percentage, pay any short-term disability pay due to ensure the employee receives the appropriate income replacement level.
- When DHRM approves a Workers' Compensation claim and the VSDP TPA issues a Determination Action Report stating that the VSDP claim is work-related, the workers' compensation benefit must be paid on an anticipatory basis. Do not wait for reimbursement from DHRM.
- Once the claim is complete or the employee goes into long-term disability, a reconciliation of Workers' Compensation payments to Workers' Compensation reimbursements must be completed. Any differences must be identified and corrected prior to terminating the employee.

Garnishment Withholdings

Benefits payable under the VSDP program are exempt from levy, garnishment, attachment and other legal process. However, it is up to the employee to obtain a waiver from the courts approving the exemption. If no waiver is presented, the Attorney General's office deems these withholdings to be collectable.

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Cardinal HCM Processing, Continued

Leave Usage for Waiting Period for Work-Related VSDP

Agencies are reimbursed for the Workers' Compensation portion of the first seven days of the claim for Workers' Compensation claims that exceed 21 days. In this case, the employee does not have to use personal leave balances to cover time used during the waiting period. Personal leave must be reinstated to the employee at the pro-rated amount in accordance with the Workers' Compensation Rate as follows:

Step	Action
1	Calculate employee's annual salary
2	Calculate employee's weekly salary (annual salary divided by 52)
3	WC weekly indemnity benefit
4	WC weekly indemnity benefit divided by weekly salary
5	Daily WC hours (Result of step 4 times 8 hours)
6	Daily leave usage (8 hours minus step 5)
7	Leave usage (5 days multiplied by result of step 6)

Manual Adjustment Procedures

From time to time, it may be necessary to reclassify employee payments from one earnings code to another due to a delay in receipt of information or pending outcome of an investigation. If necessary, enter a spot to reclassify the earnings as appropriate.

Internal Control

Internal Control

Agencies must have policies and procedures in place governing VSDP claim payment processing. These procedures must minimally incorporate employee notification, receipt of VSDP TPA action reports, compliance with the VSDP program guidelines, and employee leave usage. Agency payroll personnel, fiscal officers and human resource personnel must coordinate effectively to ensure proper payment employees.

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Records Retention

Time Period Reports and documentation should be retained for five (5) years or until audited, whichever is later. Agency policy and procedures determine the retention of the related agency source documents/records.

Contacts

DOA Contact Director, State Payroll Operations
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Assistant Director, State Payroll Operations
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Subject Cross References

References CAPP Topic No. 50425, *Group and Optional Life Ins*
CAPP Topic No. 50515, *Special Payments*
CAPP Topic No. 50520, *Workers Compensation Non-VSDP*
CAPP Topic No. 50705, *Employee and Tax Balance Updates*

Refer to suggested job aids and training information for data entry and processing on the Cardinal website: <http://www.cardinalproject.virginia.gov/>.
