

Department of Accounts

Payroll Bulletin

Calendar Year 2007

December 22, 2006

Volume 2007-03

*In This Issue of
the Payroll
Bulletin.....*

- **Tax Reporting for 2006 ORP Retirees**

The Payroll Bulletin is published periodically to provide CIPPS agencies guidance regarding Commonwealth payroll operations. If you have any questions about the bulletin, please call Cathy McGill at (804) 371-7800 or Email at cathy.mcgill@doa.virginia.gov

State Payroll Operations

Director Lora L. George
Assistant Director Cathy C. McGill

Tax Reporting for 2006 ORP Retirees

IRS Regulations

Many colleges, universities and agencies with political appointees have employees who choose to participate in one of the Optional Retirement Plans in lieu of VRS (deduction 009 – Fidelity, 011 – Political ORP, or 014 – TIAA-CREF). One of the benefits that these employees may continue to receive once they have **retired** from state service is coverage under the State's Group Term Life (GTL) policy, provided they meet the age/service guidelines VRS requires for retirement. If the employee is eligible for continued group term life insurance coverage and the amount of the coverage exceeds \$50,000, then imputed income must be calculated and reported on a W2 for the retiree.

VRS provides W2s to retirees under the Virginia Retirement System, but does not provide W2s to employees who elected to participate in one of the Optional Retirement Plans (ORP); therefore, agencies with employees who retired in 2006 and meet the criteria outlined below, must report the amount of imputed income to DOA for inclusion on W2s for 2006. The uncollected social security and Medicare taxes on the imputed income will be reported separately in box 12 on Form W2 using codes M and N. The retiree must pay the employee's uncollected share of social security and Medicare taxes with their income tax returns.

Eligibility for Continued GTL Coverage

Employees in ORPs must meet the same eligibility requirements as VRS-covered employees to remain covered by the States' GTL policy at separation from service. VRS service credits the employee may have in addition to the employee's ORP service credits count towards meeting the age/service requirements. Questions regarding eligibility for continued coverage should be addressed to:

Joe Chang, Minnesota Life Richmond Branch Office
joseph.chang@minnesotalife.com
Phone: 1-800-441-2258, ext. 101

Continued on next page

Tax Reporting for 2006 ORP Retirees, *continued*

- Reporting Criteria** The following criteria should be used to determine which employees are impacted:
- Retiree elected to participate in one of the optional retirement plans instead of VRS, and
 - Retiree is eligible for continued coverage under Group Life Insurance (at least 50 with 10 years of service or 55 with 5 years of service), and
 - Retiree's final annual salary is greater than \$25,000, and
 - Retiree retired during 2006.
-

Amount of Insurance Coverage

At the time the employee retires, the amount of life insurance coverage provided is twice the amount of the employee's final salary. The following reductions take place as indicated:

25% reduction on January 1st after 12 months from separating service

25% reduction every January 1st thereafter

Final 25% reduction January 1st to fully reduced amount equal to 50% of final salary at time of retirement

Example: At the time Tom retired in May, 2006 his final annual salary was \$75,000. He meets the criteria required for continued GTL insurance coverage and the coverage amount is \$150,000 ($\$75,000 * 2$). In January, 2008 the amount of his life insurance coverage will be reduced to \$112,500 ($\$150,000 * .75$). In January, 2009 the amount of coverage will be reduced to \$75,000 ($\$150,000 * .5$). In January, 2010 the amount of coverage will be reduced for the last time to \$37,500 ($\$150,000 * .25$) which is equal to 50% of his original final salary.

Calculate Amount of Imputed Life

Figure the monthly cost of the insurance to include in the retired employee's wages by multiplying the number of thousands of dollars of insurance coverage over \$50,000 (figured to the nearest \$100) by the cost shown in the table below. Use the employee's age on the last day of the tax year. You must prorate the cost from the table if less than a full month of coverage is involved. Figure the total cost to include in the employee's wages by multiplying the monthly cost by the number of full months' coverage at that cost.

A spreadsheet to assist in calculating the amount of imputed income and applicable OASDI and HI taxes is available upon request. Please email Cathy McGill at cathy.mcgill@doa.virginia.gov if you would like to receive the spreadsheet.

Continued on next page

Tax Reporting for 2006 ORP Retirees, *continued*

| Cost Per \$1,000 of Protection For 1 Month | <u>Age</u> | <u>Cost</u> |
|--|---------------|-------------|
| | Under 25 | \$.05 |
| | 25 through 29 | .06 |
| | 30 through 34 | .08 |
| | 35 through 39 | .09 |
| | 40 through 44 | .10 |
| | 45 through 49 | .15 |
| | 50 through 54 | .23 |
| | 55 through 59 | .43 |
| | 60 through 64 | .66 |
| | 65 through 69 | 1.27 |
| | 70 and older | 2.06 |

W2 Reporting

Once you have calculated the amount of imputed income that needs to be added to the retired employee's CIPPS record for 2006, complete an adjustment form and fax to John Rodgers at DOA (804-225-3499). In order to meet the deadline for issuing W2s for 2006, all adjustment forms must be submitted with your Final Year-End Certification for W2s on Thursday, January 11, 2007.

Currently we are focusing on making sure that calendar year 2006 is reported correctly. Further instructions on how to correct W2s for prior years will be provided sometime in early 2007.

Example

Tom retired in May, 2006 after 23 years of service with one of Virginia's community colleges. When Tom was hired, he chose to participate in one of the optional retirement plans offered to higher ed employees instead of the traditional retirement plan through VRS. At retirement, Tom's annual salary was \$75,000. Because Tom is 53 and has over 10 years of state service, he continues to be covered by group-term life insurance at twice his annual salary after his retirement (\$150,000). Tom's community college must include a total of \$276.00 in his wages as imputed life for the calendar year of 2006. The \$150,000 of insurance coverage is reduced by \$50,000. The total cost of \$100,000 of coverage is \$276 ($$.23 \times 100 \times 12$). The YTD amount of imputed life included in Tom's taxable income at the time he retired on May 1, 2006 was \$115 ($$.23 \times 100 \times 5$). The payroll office at his community college must complete an adjustment form to add \$161 ($\$276 - \115) to the following fields on the Employee File Adjustment Form: GROSS, FIT TXBL, SIT TXBL, OASDI TXBL, HI TXBL, COMPANY OASDI TXBL, COMPANY HI TXBL. The Employee File Adjustment form should also add \$9.98 to COMPANY OASDI TAX and UNCOLL OASDI and \$2.33 to COMPANY HI TAX and UNCOLL HI.

Continued on next page

Tax Reporting for 2006 ORP Retirees, *continued*

Payment to IRS

If the agency owes money to the IRS for the Company OASDI/HI after all of the adjustments for 2006 have been made, DOA will notify the agency and payment to the IRS will have to be made thru CARS using the EFTPS Process for Form 941 procedure found in Topic 20319 of the CAPP manual.

(http://www.doa.virginia.gov/Admin_Services/CAPP/CAPP_Topics/20319.pdf)

Do not make a payment to the IRS unless you receive instructions from DOA to do so.

DOA Contacts

Please contact John Rodgers at 804-225-3079 or Cathy McGill at 804-371-7800 if you have any questions.
