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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. Additionally, post-tax contributions, known as Roth contributions, are available for both Deferred Compensation and Annuities.

The *Code of Virginia* section 51.1-609 and the Appropriation Act permit an employer-paid supplemental cash match for eligible employees who participate in the Commonwealth of Virginia 457 Deferred Compensation Plan (DCP) or a 403(b), tax-sheltered annuity (TSA). The supplemental cash match for DCP participants is administered under the Virginia Cash Match Plan 401A by VRS. Institutions of higher education or other educational agencies with qualifying TSA participants individually administer their own cash match plans.

An employer-paid cash match to DCP and TSA contributions is established based on plan rules through the automated interfaces. Additionally, employees enrolled in the Hybrid retirement program receive an employer-paid matching contribution as defined in Code of Virginia section 51.1-169. Hybrid employees are not eligible for the employer DCP supplemental or TSA cash match until they are contributing the maximum voluntary contribution amount permitted under the Hybrid plan.

The Employee *Voluntary* Defined Contribution portion of the Hybrid retirement program is stored in Cardinal HCM as a Savings Plan as it also falls under §457 of the Internal Revenue Code. However, as it directly relates to the enrollment for Hybrid retirement, it is discussed in CAPP – Cardinal Topic 50425, Retirement.

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. A post-tax contribution to DCP known as a Roth 457 is also available. Deferred Compensation contributions are transferred to a financial services company (hereafter called the Plan Record Keeper) for investment. The amounts deferred (before tax contribution, not Roth contributions), 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. In Cardinal HCM, Deferred Compensation is reflected in the Base Benefits module under Savings Plans – Plan Type 49.

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 known as “extensions” in Cardinal HCM are available to participants.

- Standard Catch Up
- Age 50+

Under the Standard Catch Up provision the participant makes additional contributions (based on un-deferred 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.

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Deferred Compensation, Continued

Additional Contribution Provisions, continued

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 Plans page on the VRS website.

Standard Catch Up and Age 50+ savings plan extensions are viewable on the Savings Management Page in Base Benefits. The Age 50+ extensions are systematically established based upon the employee's birthdate in Cardinal HCM. DCP Standard Catch Up extension amounts that have been approved by VRS are sent to the Plan Record Keeper via an automated interface.

Online Enrollment

Employees can enroll, change contribution amounts, or stop contributions online using the Defined Contribution Plans page 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.

Transfers Between Agencies

Employees transferring from one agency to another must re-enroll online or via phone with the Plan Record Keeper. The termination of employment at one employer automatically terminates the Deferred Compensation enrollment in Cardinal HCM 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 Cardinal HCM. The enrollment transaction for the new agency will come through on the next interface from the Plan Record Keeper.

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Deferred Compensation, Continued

Processing Summary

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

Election	Processed By:			
	Method*	***Plan Record Keeper***	**Payroll Office**	**VRS Review**
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 Enrollments

With the exception of one-time deferrals (discussed in the Leave Payouts section later in this topic), all deferred compensation enrollment changes must be entered into the Plan Record Keeper's system accessed through the Defined Contribution Plans website. A monthly interface from the Plan Record Keeper establishes the enrollments in Cardinal HCM. The enrollment information is reflected on employee paychecks as employee and employer deferred compensation deductions (DEFCMP).

Reports and Queries

The following reports can be used to review and monitor deferred compensation information:

- RHR148, ICMA Upload Error Report - Report lists employees on the monthly ICMA-RC Upload file whose deferred compensation changes were not loaded to Cardinal HCM. Report includes the applicable error/warning message and enrollment information necessary to allow manual entry into Cardinal HCM. **(Note: ICMA-RC is now known as MissionSquare Retirement but the reports still reflect ICMA-RC.)**
- RPY373, Cash Match Error Report - Report lists employees for whom the Employer Cash Match Enrollment program corrected the 457 deferred compensation plan enrollment or 403(b) annuity plan enrollment to comply with employer cash match rules. Report also lists minimum contribution errors, which may require agency action to correct.

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Deferred Compensation, Continued

Remittance Process

Cardinal HCM 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 and Voluntary Hybrid to ensure annual limits are not exceeded is performed systematically within Cardinal HCM.

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. Once processed, the One-Time Deferral Form is to be faxed to the Plan Record Keeper.

Due to required FICA taxes, 100% of the payout can never be deferred. A Maximum Deferral spreadsheet found on the *Payroll Operations Forms* section of the DOA website should be used to determine the amount that can be deferred.

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 deductions 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. Post-tax contributions known as Roth contributions are also available for enrollment and payroll deduction.

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 enrollments and associated employee and employer deductions (ANNUTY) must be processed through an automated interface between the TPA and Cardinal. Each pay period, an automated file for updating Cardinal HCM is received 5 work days before payroll confirmation. Depending on the vendor, an administrative fee general deduction (TPAFEE) may apply that must be charged to the employee through payroll deduction.

In Cardinal, Annuities are reflected in the Base Benefits module under Savings Plans – Plan Type 46.

Reports

The following reports and queries can be used to review and monitor annuity information:

- RHR147, FBMC Upload Error Report - Report lists employees on the semi-monthly FBMC Enrollment Data Upload file whose annuity or miscellaneous insurance changes were not loaded to Cardinal. Report includes the applicable error/warning message and enrollment information necessary to allow manual entry into Cardinal.
- RPY373, Cash Match Error Report - Report lists employees for whom the Employer Cash Match Enrollment program corrected the 457 deferred compensation plan enrollment or 403(b) annuity plan enrollment to comply with employer cash match rules. Report also lists minimum contribution errors, which may require agency action to correct.

Contribution Limits

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

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Tax-Sheltered Annuities, Continued

15 Year Catch-Up	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.
15 Year Rule	The 15-Year Catch Up and Age 50+ savings plan extensions are viewable on the Savings Management Page in Base Benefits. The Age 50+ extensions are systematically established based upon the employee's birthdate in Cardinal HCM. 15 Year extension amounts that have been approved by the authorizing agency are communicated through the TPA to State Payroll Operations (SPO) who will establish the extension in Cardinal.
Central Remittance Process	Employee contributions are electronically transferred by Cardinal HCM 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 annuity vendors with standard Salary Reduction Agreement (SRA) and Post-Tax Salary Deduction Authorization (SDA) forms. The SRA/SDA form is the only acceptable form to start, stop or change deductions. All forms will be initiated between the Vendor/Agent and the employee, but also require Employer signature. The SRA 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. Neither the SRA nor the SDA is an internal investment provider application form to establish the 403(b) account. The TPA requires specific information provided on the forms 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 general deduction (TPAFEE) must be charged to employees. The administrative fee deduction is established in Cardinal HCM at the same time the annuity (ANNUTY) enrollment and deduction are established.

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Tax-Sheltered Annuities, Continued

TPA Administration

For more information on TPA processing, access the TPA Administrative Manual on the DOA website at www.doa.virginia.gov/Payroll/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*.

Establishing Deductions

Online Data Entry

While deduction activity for the TPA Fee amounts is largely controlled by the automated interface, there may be times when manual data entry of the general deduction for the TPA administrative fee will be required**.**

Refer to the “Creating, Updating, and Stopping General Deductions” Job Aid for detailed information.

Internal Control

Internal Control

Agencies must ensure proper documentation exists prior to initiating any change to an employee record 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

Subject Cross References

References

CAPP – Topic No. 50425, *Retirement*

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

Suggested Additional Resources

The following can be found on the Cardinal Website, under Statewide Toolbox – Job Aids:

PY 381 Creating, Updating, and Stopping General Deductions