



Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Table of Contents

Overview.....	2
VRS Retirement Plans	2
Optional Retirement Plans (ORPs)	3
Employees.....	4
Central Benefits Administration	4
Agency HR/Benefits Administration.....	4
Central Payroll Administration	5
Cardinal Post Production Support - Benefits.....	5
Agency Payroll and Fiscal Administration.....	5
Retirement Processing	6
Payroll Deduction Values.....	6
Ancillary Benefits	7
Group Life Enrollment.....	7
Retiree Health Credit Enrollment	8
VSDP LTD Enrollment.....	8
Purchase of Prior Service (PPS)	8
Contribution Basis	9
Employee Deductions for Transfers/Terms	10
Deduction Extract Reports.....	11
VRS Billing Reconciliation	11
Optional Group Life.....	11
Optional Group Life.....	11
Establishing Optional Group Life Deductions.....	12
OGL Premium Updates.....	12
Audit Reports	12
Optional Group Life Premium Calculation.....	13
Deduction Overrides	14
Deduction Extract Reports.....	14
Imputed Life.....	15
Introduction.....	15
Tax Implications	15
Automatic Processing	15
Imputed Life Enrollment.....	16
Internal Control.....	16
Internal Control.....	16
Records Retention	16
Time Period.....	16
Subject Cross References.....	17
References.....	17
Suggested Additional Resources.....	17
Contacts.....	17
DOA Contact	17

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Overview

VRS Retirement Plans

The Virginia Retirement System (VRS) administers four different types of defined benefit (DB) retirement plans. A defined benefit pension plan is a plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.


Plan eligibility is largely determined by the employee's current position. Within each plan, there are separate classifications based on the employee's VRS service history and hire date. The Hybrid Retirement Plan is comprised of both defined benefit (DB) and defined contribution (DC) investments which are discussed later in this topic.

- VRS Retirement Plan (VRS)
 - Plan 1 VRS Retirement Plan
 - Plan 2 VRS Retirement Plan
 - Hybrid Retirement Plan
- State Police Officers' Retirement System (SPORS)
 - Plan 1 SPORS Retirement Plan
 - Plan 2 SPORS Retirement Plan
- Judicial Retirement System (JRS)
 - Plan 1 JRS Retirement Plan
 - Plan 2 JRS Retirement Plan
 - Hybrid JRS Retirement Plan
- Virginia Law Officers' Retirement System (VaLORS)
 - Plan 1 VaLORS Retirement Plan
 - Plan 2 VaLORS Retirement Plan

VRS maintains employee service records in *myVRS Navigator* (VNAV) which include previous irrevocable retirement plan enrollments as well as withdrawals and purchases of previous service.

Plan deductions and "Ancillary Benefits" are taken as a percentage of the "Contribution Basis" which is determined by the VRS Plan Rules.

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Overview, Continued

Optional Retirement Plans (ORPs)

Based on an employee’s current position, they may be eligible to elect an Optional Retirement Plan (ORP). ORPs are defined contribution retirement plans offered as an alternative to VRS retirement. A defined contribution plan is a type of retirement plan in which the employer, employee, or both, make contributions on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts plus any investment earnings on the money in the account. Only employer contributions to the account are guaranteed, not the future benefits. In defined contribution plans, future benefits fluctuate based on investment earnings.

Upon entry into an ORP-eligible position (e.g., faculty or political appointee), employees are granted an election window to select either the ORP or the applicable VRS retirement plan. While future changes in the employee’s job may qualify them for a new election period, it is important to realize that the employee’s job history with other localities may also affect the employee’s eligibility for the VRS Plans. VRS is the authoritative source for previous employee ORP elections and their current plan eligibility.

ORP-eligible faculty have a 60-day election period to decide if they want to participate in one of the following ORPHE (Optional Retirement Plan for Higher Education) plans:

- Teacher Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)
- DC Plan managed by VRS


ORP-eligible political appointees have a 30-day election period to decide if they want to participate in the ORPPA (Optional Retirement Plan for Political Appointees).

See the Working Examples on the DOA website for specific instructions on handling ORP-eligible employees during the election period. No retirement enrollments should be entered into Cardinal until the employee makes the election and the election is officially recorded in VNAV. VRS will relay all enrollments to Cardinal via a semi-monthly interface.

Deductions are taken as a percentage of the amount of compensable pay received by the employee. Group Life Insurance and Retiree Credit (see Ancillary Benefits section) are calculated based on the “Contribution Basis” as defined by VRS.

The 401(a) annual limit/plan year for ORP participants is determined based on payment dates, i.e., check date July 1 – check date June 30.

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Overview, Continued

Employees

Employees are responsible for:

- Review of employee earnings notices to ensure that all benefits are withheld correctly.
- Choosing a retirement plan within the allowed time if eligible for an optional retirement plan.

Central Benefits Administration

The Virginia Retirement System:

- Administers statewide retirement benefits for all plans.
- Administers a contract with a Third-Party Administrator, currently MissionSquare, to provide services related to the Hybrid, ORPPA and ORPDC Retirement Plans.
- Administers a contract with TIAA to provide an optional retirement plan to eligible higher ed employees.
- Maintains the myVRS Navigator (VNAV) system and provides interface files to Cardinal HCM to update employee retirement benefits.
- Provides monthly Snapshot invoice file to Cardinal for automated recon.


Agency HR/Benefits Administration

Agency HR and Benefit Administrators:

- Ensure records for new employees are established promptly, reflect the correct Action/Reason, Employee Class, Job Code, and compensation rate. These codes directly affect the data sent to VRS and the return from VNAV of the values automatically populated in Eligibility Fields 1 and 6. Refer to job aids HR351, Completing a New Hire and HR351, Employee Class Overview on the Cardinal Project website for more information.
- Review new enrollments and enrollment changes using reports provided in HCM.
- Investigate employee eligibility problems identified by Benefits Administration (Ben Admin).
- Respond to employee inquiries.
- Review Cancelled Records report in VNAV promptly to resolve errors preventing enrollment in retirement benefits.
- Review the monthly Snapshot in VNAV to ensure that all employees are covered appropriately and at the correct compensation rate.
- Collaborate with Payroll Administrators to ensure automated recon is reviewed and necessary adjustments are made in VNAV and/or Cardinal.

Detailed administrative guidelines governing retirement plans is available from the VRS website.

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Overview, Continued

Central Payroll Administration State Payroll Operations (SPO) in the Department of Accounts (DOA):


- Runs payroll process in Cardinal HCM, in which payroll deductions for retirement plans are processed.
- Submits vouchers to remit ORP and Hybrid payroll contributions to the Third Party Administrators.
- Receives Person Not on File (PNOF) reports and provides guidance to agencies to resolve.

Cardinal Post Production Support - Benefits Cardinal Post-Production Support – Benefits (PPS-BN) in the Department of Accounts (DOA):

- Updates contribution rates approved by the legislature.
- Sends daily interface files to VNAV for select agencies to report changes in employee status; however, not all job actions are sent to VNAV etc)
- Processes the interface file received semi-monthly from VNAV to establish employee plans and populate Elig Field 1 and 6.
- Receives the monthly VRS Snapshot Invoice from VRS and runs the automated retirement reconciliation, which compares VRS billing records to Cardinal HCM payroll deductions to identify differences.

Agency Payroll and Fiscal Administration Agency payroll administrators:

- Create payroll transactions using the Single- Use Payroll Online Tool (SPOT), as necessary, to support retroactive or correcting adjustments for benefits.
- Collaborate with HR/Benefit Administrators to ensure automated recon is reviewed and necessary adjustments are made.

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Retirement Processing


Payroll Deduction Values

Retirement benefits are found in Base Benefits under Retirement Plans and are Plan Type 70. The Voluntary portion of Hybrid is found in Base Benefits under Savings Plans and is Plan Type 4W. Retirement payroll deduction values are found below:

Deduction Code	Description
ELOFCL	Elected Official DB
JUDRET	Judicial Mandatory DB (Plan 1)
JUDMDB	Judicial Mandatory DB (Plan 2)
SPORS	State Police DB
VALORS	VaLORS DB
VRSRET	Regular DB
HJRMDB	Judicial Hybrid DB
HVRMDB	VRS Hybrid DB
HYBVDC	VRS HB Vol DC (0.5% to 4%)
ORPPA1	Political Appointee ORP (Plan 1)
ORPVRS	Political Appointee ORP (Plan 2)
ORPTA1	TIAA ORP (Plan 1)
ORPTIA	TIAA ORP (Plan 2)
HJRMDB	Judicial Hybrid DB
HVRMDB	VRS Hybrid DB
HYBVDC	VRS HB Vol DC (0.5% to 4%)
*GTIAP1	Grandfathered TIAA ORP Plan 1
*GVRSP2	Grandfathered Regular Plan 2

* Only specific employees identified by VRS are eligible. Coordination with State Payroll Operations (SPO) is required in order to perform enrollment.

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Retirement Processing, Continued

Ancillary Benefits

Ancillary benefits, also known as Other Post-Employment Benefits (OPEBS), are additional benefits provided in accordance with the employee’s retirement plan. The rates for these are established in the Appropriations Act each year and the benefits are managed by VRS for all employees including ORP employees. More information about these benefits can be found on the VRS website.

Ancillary benefit enrollments include:


- Group Life Insurance - 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.
- Retiree Credit - VRS administers the Retiree Health Insurance Credit (HIC) program. The HIC is an agency-paid deduction that reduces the cost of health insurance for the eligible employee during retirement. The credit is a dollar amount set by the General Assembly for each year of service. The credit ends upon death and cannot exceed the amount of individual health insurance premiums.
- Long Term Disability - 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. For more information see CAPP – Cardinal Topic 50525, *Virginia Sickness and Disability Program*.

Group Life Enrollment

Group Life in Cardinal is established as a Benefit. Group Life enrollment is established through the semi-monthly VRS VNAV Upload to Cardinal. Group Term Life (Plan Type 7W) enrollment is found in the Base Benefits pages for Retirement Plans. Group Life payroll deduction values are found below:

Deduction Code	Description
GRPLFJ	Group Term Life -Judicial
GRPLFR	Group Term Life – Regular
GRPLFS	Group Term Life – SPORS
GRPLFV	Group Term Life - VaLORS

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Retirement Processing, Continued

Retiree Health Credit Enrollment

Retiree Health Credit in Cardinal is established as a Benefit. Retiree Health Credit enrollment is established through the semi-monthly VRS VNAV Upload to Cardinal. Retiree Health Credit (Plan Type 7X) enrollment is found in the Base Benefits pages for Retirement Plans. Retiree Health Credit payroll deduction values are found below:

Deduction Code	Description
RETHCJ	Retiree Health Credit – Judicial
RETHCR	Retiree Health Credit – Regular
RETHCS	Retiree Health Credit – SPORS
RETHCV	Retiree Health Credit - VaLORS

VSDP LTD Enrollment

VSDP LTD in Cardinal is established as a Benefit. VSDP LTD enrollment is established through the semi-monthly VRS VNAV Upload to Cardinal. VSDP LTD (Plan Type 7Y) enrollment is found in the Base Benefits pages for Retirement Plans. VSDP LTD payroll deduction values are found below:


Deduction Code	Description
SDLTDR	VSDP LTD – Regular
SDLTDS	VSDP LTD – SPORS
SDLTDV	VSDP LTD - VaLORS

Purchase of Prior Service (PPS)

The Purchase of Prior Service provision (PPS) allows eligible VRS members to purchase service credit under specific circumstances. The PPS provision is available to participants of any of the retirement plans administered by VRS. Employees eligible for PPS can choose to purchase service credit on a pre-tax or post-tax basis subject to rules established by VRS. PPS general deduction payroll values are found below:

Deduction Code	Description
PPSJDA	PPS-Judicial Post Tax
PPSJDB	PPS-Judicial Pre Tax
PPSRTA	PPS-VRS Post Tax
PPSRTB	PPS-VRS Pre Tax
PPSSPA	PPS-SPORS Post Tax
PPSSPB	PPS-SPORS Pre Tax
PPSVLA	PPS-VALORS Post Tax
PPSVLB	PPS-VALORS Pre Tax

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Retirement Processing, Continued

Contribution Basis

All VRS managed deductions (VRS Retirement and Ancillary Benefits) are calculated as a percentage of the same base value or “Contribution Basis.” The Contribution Basis represents the employee’s creditable compensation for a semi-monthly pay period. While the Contribution Basis typically corresponds to the pay period salary, in some circumstances it does not (e.g., contract employee less than 12 months or salary change mid-month).

Additional Pay “VRS” – VRS Contribution Base - has been established to reflect the employee’s contribution basis related to salary. This additional pay populates the Special Accumulator “CBS” (VRS Creditable Compensation) which is the value used for retirement and ancillary benefit deduction calculation in Cardinal. The value in VRS is systematically calculated using the following formula:


(Annual Salary / Contract Length*) for monthly and divided by 2 (S/M)
*first two characters of Elig Fld 8 on the Job record

For a 12-month, semi-monthly employee, the amount in additional pay “VRS” is typically the same as the employee’s semi-monthly salary unless the employee had a mid-month salary change. For a less than 12-month contract employee, this amount will be slightly higher than the salary amount.

The additional pay ‘VRS’ is prorated for less than 12-month contract employees and VRS-managed retirement deductions are collected only during the “on-contract” months. These employees do not contribute retirement or ancillary benefits during the “off-contract” months. In addition, PPS deductions do not continue in the “off-contract” months. HR Admins will need to insert a new row at the beginning of the off-contract period and uncheck the OK to Pay box to discontinue the deductions. Unless there is a job data change that triggers a change from VNAV (eligibility field or compensation), another row must be added at the beginning of the next contract period to check the Ok to Pay box.

For employees enrolled in Optional Retirement Plans (ORPs) the additional pay “VRS” is used to calculate Group Life and HIC contributions only. Retirement contributions for ORP plans are taken as a percentage of eligible payments paid to the employee.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023


Retirement Processing, Continued

Employee Deductions for Transfers/Terms

When an employee terminates mid-month, retirement, group life and optional life premiums must be collected for the entire final month under VRS guidelines. Use a SPOT deduction override to collect the additional optional group life amount. Refer to job aid, PY381, Using the Single-Use Payroll Online Tool (SPOT) for detailed instructions. See CAPP Topic Nos. 50320, *Terminations*, and 50605, *Tax and Deduction Overrides* for additional information.

Employees who transfer to other agencies and have a voluntary Hybrid percentage greater than zero will be reset to zero at the new agency. The employee must re-enroll to increase the percentage. The increase will begin at the top of the following quarter.

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Retirement Processing, Continued

Deduction Extract Reports In addition to payroll reports listed in the HCM Reports Catalog, deduction extract reports are generated semi-monthly for those benefits transmitted to third party vendors. The Retirement related benefit reports are listed below:

Report	Description
RPY453, ICMA-RC Deduction Extract Report	Extract audit reports for semi-monthly outbound vendor file to ICMA-RC (now Mission Square Retirement) .
RHR144, TIAA Extract Report	Extract audit reports for semi-monthly outbound vendor file to TIAA-CREF Higher Education Optional Retirement Plan


VRS Billing Reconciliation The VRS Billing Reconciliation program runs monthly to compare the VRS retirement billing file with retirement deductions processed through Cardinal HCM. The reconciliation identifies differences between the expected retirement contribution amounts according to employee retirement plan enrollments in VNAV and the retirement contributions collected through the combination of employee and employer deductions in Cardinal HCM. Refer to the “Benefit Enrollment and Maintenance Course” for detailed steps in the reconciliation process.

Optional Group Life

Optional Group 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

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Optional Group Life. continued

Optional Group Life, continued 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.


Establishing Optional Group Life Deductions Optional Group Life is established as a general deduction in Cardinal HCM. For new enrollments, deductions must be established using Deduction Code OPTLIF. Refer to job aid, PY381, Creating, Updating, and Stopping General Deductions for detailed instructions on setting up general deductions.

OGL Premium Updates Each January Minnesota Life provides Cardinal with a file of calculated premium rates. Cardinal uses this file to create transactions to automatically update participant optional group life general deduction amounts. Manual calculations and updates are only required for new deductions and changes to coverage options during the year.

Audit Reports The following report is produced as a result of the annual premium update:

Report	Description
RPY172, Minnesota Life Interface Error Report	Report lists employee Optional Group Life Insurance changes which could not be updated by the Optional Group Life Premium interface, the reason for the error, and all other changes which were successfully loaded to Cardinal.

Continued on the next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Optional Group Life, Continued

Optional Group Life Premium Calculation


Other than the automated update each January, the optional life premium 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 with a 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:

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 H0ZDC	$\$277.92 \div 24 = \11.58

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

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Optional Group Life, Continued


Deduction Overrides

In some cases, overrides, using the Single-Use Payroll Online Tool (SPOT), are necessary to ensure the appropriate group life charge is made or to collect premium adjustments for optional group life. Refer to job aid PY381, Using the Single-Use Payroll Online Tool (SPOT) for detailed instructions.

Deduction Extract Reports

In addition to payroll reports listed in the HCM Reports Catalog, deduction extract reports are generated semi-monthly for those benefits transmitted to third party vendors. The Retirement related benefit reports are listed below:

Report	Description
RPY453, ICMA-RC Deduction Extract Report	Extract audit reports for semi-monthly outbound vendor file to ICMA-RC (now Mission Square Retirement) .
RHR144, TIAA Extract Report	Extract audit reports for semi-monthly outbound vendor file to TIAA-CREF Higher Education Optional Retirement Plan
RHR145, Minnesota Life Deduction Extract Report	Extract audit reports for semi-monthly outbound vendor file to Minnesota Life (Securian)

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

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

Automatic Processing Cardinal HCM 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, the contract length (first two characters of Eligibility Field 8), and the annual salary.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Imputed Life, Continued


Imputed Life Enrollment The Imputed Life is treated as a benefit deduction in Cardinal. Imputed Life enrollment is systematically established through a nightly process. Imputed Life (Plan Type 23) enrollment is found in the Base Benefits pages for Life and AD/D Benefits. Imputed Life tax payroll deduction is IMPLIF.

Internal Control

Internal Control Agencies must ensure that retirement, retiree credit, group insurance, long-term disability, optional retirement plan, and other corresponding retirement plan deductions are established properly in Cardinal HCM and VNAV. Ensure that a timely review of the monthly reconciliation reports is performed and that any automated amounts are accurate or correcting actions are completed. 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.

Volume No. 1—Policies and Procedures	TOPIC NO. 50425 – Cardinal
Section No. 50400—Deductions	TOPIC RETIREMENT
	DATE June 2023

Subject Cross References

References

CAPP – Cardinal Topic 50320, *Terminations*
 CAPP – Cardinal Topic 50520, *Workers’ Compensation Non VSDP*
 CAPP – Cardinal Topic 50525, *Virginia Sickness and Disability Program*
 CAPP – Cardinal Topic 50605, *Tax and Deduction Overrides*
 CAPP – Cardinal Topic 50705, *Employee and Tax Balance Update*

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 Learning – Job Aids:

- BN 361 Benefits Quick Reference Guide
- HR 351 Completing a New Hire
- HR351 Employee Class Overview
- PY 381 Using the Single-Use Payroll Online Tool (SPOT)
- PY 381 Creating, Updating and Stopping General Deductions


The following can be found on the Cardinal Website, under Learning > Course Materials:

- BN361 Benefit Enrollment and Maintenance

Contacts

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