

# Department of Accounts

## Payroll Bulletin

Calendar Year 2007

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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](mailto:cathy.mcgill@doa.virginia.gov)

State Payroll Operations

**Director** Lora L. George  
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## 2007 Tax Reporting for 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 W-2 for the retiree.

VRS provides W-2s to retirees under the Virginia Retirement System, but does not provide W-2s to employees who elected to participate in one of the Optional Retirement Plans (ORP); therefore, agencies with employees who retired in 2007 or before and meet the criteria outlined below, must report the amount of imputed income to DOA for inclusion on W-2s for 2007. The uncollected social security and Medicare taxes on the imputed income will be reported separately in box 12 on Form W-2 using codes M and N. The retiree must pay the employee's uncollected share of social security and Medicare taxes with their income tax return.

### 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](mailto:joseph.chang@minnesotalife.com)  
Phone: 1-800-441-2258, ext. 101

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## 2007 Tax Reporting for ORP Retirees, *continued*

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- 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 2007 or earlier.
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**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, 2007 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, 2009 the amount of his life insurance coverage will be reduced to \$112,500 ( $\$150,000 * .75$ ). In January, 2010 the amount of coverage will be reduced to \$75,000 ( $\$150,000 * .5$ ). In January, 2011 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.

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**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 calculate the amount of imputed income and applicable OASDI and HI taxes is available on our website. Please use this spreadsheet to determine the amount of imputed income that must be reported.

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## 2007 Tax Reporting for ORP Retirees, *continued*

Cost Per \$1,000 of Protection For 1 Month	Age	Cost
	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

### ORP Retirees no longer on CIPPS

If you have ORP retirees who meet the reporting criteria, but have been purged from CIPPS, you will need to add them back to the system. Use the H0BNE screen to establish a record for each retiree who has imputed income to be reported. H0BNE must be completed to provide the data elements required to build an employee record in CIPPS. Certain data fields entered on H0BNE automatically generate H0BID, H0BAD, and H0ATX screens for the employee.

### W-2 Reporting

Once you have completed the spreadsheet for the imputed income that needs to be added to the retired employee's CIPPS record for 2007, fax the "Post Retirement Life Insurance Calculation" page to John Rodgers at DOA (804-225-3499). In order for DOA to enter the adjustment in CIPPS and calculate the amount of employment taxes due to the IRS, **all forms must be submitted no later than noon on Friday, December 21, 2007.**

### Example

Tom retired in May, 2007 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 after his retirement by group-term life insurance at twice his annual salary (\$150,000). Tom's W-2 must include a total of \$276.00 in his wages as imputed life for the calendar year of 2007. The community college prepares the "Post Retirement Life Insurance Calculation" and prints a copy to DOA. DOA compares the YTD amount in CIPPS to the amount reported on the spreadsheet and makes the necessary adjustments. Tom's W-2 will include uncollected FICA amounts in boxes M and N; however, the community college portion of FICA will be paid to the IRS.

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## 2007 Tax Reporting for ORP Retirees, *continued*

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**Payment to IRS**

DOA will make the federal tax deposit for the employer portion of the OASDI and HI taxes prior to the end of the calendar year. Retirees will be responsible for the employee portion when they file their income tax returns.

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**DOA Contacts**

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

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