

Department of Accounts Payroll Bulletin

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

✓ **Change in Severance Processing**

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

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General Guidelines for Severance Payments

Severance Payments

Department of Human Resource Management Policy 1.57, Severance Benefits, in conjunction with DHRM Policy 1.35, Layoff, outlines the policies pertaining to severance benefits. The DHRM website <http://www.dhrm.virginia.gov/layoffinfo.html> also provides tools for calculating severance pay and identifying applicable benefits.

Employees who elect to receive the payments with continued state contributions toward health insurance and life insurance coverage are considered as being on Leave Without Pay-Layoff (DHRM Policy Number 1.30).

Severance payments for involuntary separation, whether biweekly amounts or semi-monthly amounts, are to be **processed semi-monthly** using Special Pay 31, INV SEP. The three methods by which the Special Pay can be processed are:

Method 1 – Batch: Special Payment (Preferred)

- 1) Turn the Employee to non-auto on the H0BID screen.
- 2) Turn off all excluded deductions.
- 3) Key a Special Pay 031 on the HUE01 screen for the amount of the severance payment, using tax indicator of “5”, check indicator of “0” and a deduction indicator of “0”.
- 4) Key a manual payset on the HTPSA for the amount of Imputed Life for the month. This is only done the first pay period of the month. **You must key a 700 transaction for one cent in order to force the imputed life payset to calculate.**

General Guidelines for Severance, (cont.)

Method 2 – Batch: Special Payment as Regular (Imputed Life will calculate)

- 1) Turn the Employee to non-auto on the H0BID screen.
- 2) Turn off all excluded deductions.
- 3) Key a Special Pay 031 on the HUC01 screen for the amount of the severance payment.

Method 3 – Automatic Special Payment

- 1) Change the Employee's salary of \$.02 and leave the time card status as automatic.
- 2) Update the date of last pay change to the top of the current period.
- 3) On the H10AS, change the imputed life amount back to the pre-separation value.
- 4) On the H10AS, setup an automatic special pay 031 for the amount of the severance payment, using tax indicator of "5", check indicator of "0" and a deduction indicator of "0".
- 5) Turn off all excluded deductions.
- 6) Once the severance payments have ended, you **must** remember to change the frequency of special pay 031 to '00' on the H10AS.

*** It is strongly recommended that the employee's imputed life amount should be calculated through the end of the calendar year and entered via a manual payset (HTPSA) at the same time that the last severance payment is made to the employee. This will allow the system to collect all taxes associated with imputed life for the calendar year. The following calendar year, a manual payset (HTPSA) must be entered for the value of imputed life for the remainder of the severance period during that year.**

Special Pay Codes

Use of the special pay codes listed below will result in default to the appropriate object code. If no programmatic coding is established on HMBU1 specific to these special pays, the CARS coding found on the R1 record will be used with the exception of the default object code.

<u>Special Pay #</u>	<u>Pay Name</u>	<u>Object Code</u>
31	INV SEP	1171
66	ANNUAL	1176
67	SICK	1177
68	COMP	1178

General Guidelines for Severance, (cont.)

Health Insurance Employees who are involuntarily separated may continue to receive health insurance coverage for a period of 12 months from the effective date of the separation. The agency will continue to pay its portion, and the employee is responsible for the employee share of the premium. While the employee continues to receive severance payments, the employee's premium should be withheld from that payment. Once the severance payments cease, the health care plan code must be changed on HMCU1, Employee Benefits, to a LWOP code. The agency will be charged the full premium and must recoup the employee share outside of the system.

Manually Update HMCU1 As the Benefits Eligibility System (BES) does not require involuntarily separated employees to maintain unique carrier codes, you will continue to use the active carrier codes in BES. However, if a change to the carrier or membership type occurs in BES, the daily automated update will pass an active provider code to CIPPS. **After the transaction has updated the affected employees Health Care information on HMCU1 through the batch update process, you must access the HMCU1 screen for that employee and manually change the provider code to the corresponding Involuntary Separation Provider code as shown in the table below.** *If this step is not completed, the health care expenditures will post to the active object code (1115) instead of the Involuntarily Separated object code (1173).*

Health Care Provider Numbers The table below should be used when placing an employee in an involuntary separation status.

Provider	Active Provider Code	Involuntary Separation Provider Code	Project Code
COVA Care Basic (Includes basic dental)	42	92	93002
COVA Care Out-of-Network (OON)	43	93	93002
COVA Care Expanded Dental (ED)	44	94	93002
COVA Care Out-of-Network and Expanded Dental (OON/ED)	45	95	93002
COVA Care Vision, Hearing and Expanded Dental (V/H/ED)	46	96	93002
COVA Care Out-of-Network and Vision, Hearing and Expanded Dental (Full)	47	97	93002
COVA HDHP (High Deductible Health Plan)	50	90	93002
Kaiser Permanente HMO (Available in Northern Virginia Only)	06	56	93003

General Guidelines for Severance, (cont.)

Auto Health Care Reconciliation Both active and involuntarily separated health care premiums will be combined for the purpose of comparing payroll withholdings to premiums due per BES in the Automated Health Care reconciliation process. You will not see separate Health Care Reconciliation Summary reports for the involuntarily separated provider codes.

If an automated IAT is generated due to a discrepancy for an individual who is involuntarily separated, the automated expenditure charge will still post to object code 1115. The Agency Transfer Voucher (ATV) to clear the default expenditure coding must include the appropriate object code (1173).

****Change in Reporting VRS Benefits****

Involuntarily separated employees continue to receive group life insurance coverage for 12 months from the effective date of separation. As a result of *changes in policy* and for purposes of maintaining the VRS record for these employees, the group life insurance should be reported through CIPPS rather than submitting a VRS-1501, Error Adjustment Report and IAT directly to VRS as previously instructed in the DOA Payroll Bulletin dated April 23, 2008.

If your agency has already submitted a VRS-1501 and IAT to report the twelve months of group life insurance, do not report the employee through CIPPS, as it will create an overpayment on your agency's Group Life Insurance account.

Employers should continue to complete the VRS-11A, Employer Certification of Group Life Insurance Coverage and send the form to VRS.

If you have questions regarding this change in reporting, please contact a VRS Employer Reporting staff member at (888)827-3847 for assistance.

No other VRS benefits are to be calculated or reported (i.e., retiree credit, retirement, disability). **BE SURE TO DEACTIVATE THE APPROPRIATE VRS DEDUCTIONS ON H0ZDC.**

457 Deferred Comp/403(b) Annuities and Retirement Buyback

Deductions **may not** be withheld for Deferred Compensation (# 38), Buy Back (#17), and Pre-tax Buy Back (#43). Due to the nature of the funds received, severance payments are **not** considered earnings that qualify for deferral under Section 457 of IRS code. Buyback deductions cannot be withheld in CIPPS when Retirement (#16) is inactive.

However, severance payments **do** qualify as earnings for annuity deferrals under Section 403(b) of IRS code. Accordingly, the corresponding Annuity Cash Match (# 46) can be contributed while the employee is receiving severance benefits and continues to contribute to the annuity.

General Guidelines for Severance, (cont.)

Other Deductions That May Continue to Be Withheld

Other employee paid deductions, including direct deposit, *may continue* to be withheld from severance payments. Examples of such deductions are Flexible Spending Accounts (#s 21 and 22), Tax Sheltered Annuities (# 39), Supplemental Insurances (# 41), Savings Bonds (#s 52 - 57), VEST and VPEP (#s 48 and 58), and CVC (# 62).

Since Group Life remains active in CIPPS, Optional Group Life Insurance (#35) may continue to be withheld from severance payments. If the employee wishes to continue participation in the OGL program once severance payments cease, either the employing agency or the employee must notify Minnesota Life. Minnesota Life will then direct bill the employee for the monthly premiums due.

Finally, all court-ordered withholdings (garnishments, child support, and tax liens) are to continue to be withheld as severance payments do not qualify for exclusion.

Helpful Hints

Agencies have used various tools/procedures to aid in the administration of severance payments. Listed below are a few ideas which have been shared and which may be helpful.

- 1) Establish spreadsheets to track payments and benefits for each employee.
 - 2) Place employees receiving severance benefits in a unique organization code. This will provide reporting of payroll data for the affected individuals in the same location of payroll reports such as the Report 10.
 - 3) Place employees receiving severance in a unique semi-monthly frequency. This frequency could be processed on a separate night from the regular semi-monthly frequency thus providing a completely separate set of reports and CARS transactions.
 - 4) Develop written agency policies and procedures governing the handling of any payments received from the employee (e.g., employee share of health care premium) once severance benefits cease.
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General Guidelines for Severance, (cont.)

CIPPS Reports To facilitate identification of involuntarily separated employees on CIPPS reports (e.g., Report 10) consideration should be given to placing these employees in a unique frequencies or organizational codes. Many reports provide sorting and summary totals by these values. Some examples are provided below:

REPORT	TOTALS PROVIDED BY
Report 10 - Payroll and Deduction Register	Agency specific, but generally by organizational code
Report 21 - Employees within Deduction	Agency specific, but generally by organizational code
Report U022 - Detail Expenditure Report	Organizational code within frequency
Report U023 - Summary of Payroll Expenditures	Frequency
Report U033 - Detailed Payroll Expenditures by CARS Coding	CARS coding within frequency

Attachment The following pages are a handy reference guide to use for the severance payments, and subsequent months when the employee is not entitled to severance benefits, but are entitled to state benefits.

Quick Setup and Payment Guide for Separation

Involuntary Separation with Severance Payments

- Leave salary intact on the H0BID Screen.
- Update Timecard Status to non-automatic.
- Leave the frequency for Imputed Life on the H10AS active (09).
- Update the H10AS for the value of the bi-weekly severance payment as paid semi-monthly
 - Special Pay Number = 031
 - Tax Indicator = 5
 - Check Indicator = 0
 - Deduction Indicator = 0
 - Frequency = 09
- Process a payment of \$.01 on the HUA03, each payment period to pull through the severance and the imputed life amount until the last severance payment has been made.
- Update the HMCU1 to the appropriate provider code.
- Leave the appropriate deductions active on H0ZDC, including
 - Group Life (VRS-11A to VRS)
 - Premium Conversion
 - Agency Health
 - Direct Deposit
 - Dependent Care and/or Medical Reimbursement

Involuntary Separation without Severance Payments

- Leave salary intact on the H0BID Screen.
- Update Timecard Status to non-automatic.
- Leave the frequency for Imputed Life on the H10AS active (09).
- Process a payment of \$.01 on the HUA03, once a month to pull through the imputed life amount until the end of the severance period (even if the twelve-month coverage period crosses calendar years).
- Deactivate the frequency for Special Pay 031 on the H10AS (00).
- Update the membership type on the HMCU1 to the appropriate LWOP code.
- Leave the appropriate deductions active on H0ZDC, including
 - Group Life (VRS-11A to VRS)
 - Agency Health

Involuntary Separation Worksheet

Agency: _____ Employee Name: _____ Emp Id _____

Frequency _____ Org Code _____

Date of 1st Payment _____ Date of Last Payment _____

Calculation of Semi-monthly Payment:

- | | |
|---|----------|
| a) Weekly severance benefit (from DHRM Severance calculator) | \$ _____ |
| b) # weeks of involuntary separation payments due to employee | _____ |
| c) total amount of severance pay (a*b) | \$ _____ |
| d) paid out over # semi-mo pay periods (b÷2) | _____ |
| e) bi-weekly benefit to pay semi-monthly (c÷d) | \$ _____ |

Compensation

1) Establish Special Pay 31 for Involuntary Separation payments (object code 1171).

a) Batch method: Special pay 31 entered on either HUC01 or on HUE01 with a "5" in the tax descriptor field. Employee should be in non-auto timecard status. Using HUC01 will invoke the calculation of Imputed Life. If HUE01 is used, a penny regular is needed to calculate Imp Life.

OR

b) Auto-pay method: Change Salary Rate on H0BID to .02 and establish biweekly severance payment on H10AS for the amount minus 2 cents. If this method is used, keep employee in an automatic time card status.

2) Maintain Imputed Life on H10AS in an active frequency.

3) Leave Balance pay-outs

Employee elects to receive leave balances pay-outs immediately _____

OR

Employee elects to wait until end of severance benefits for leave pay-outs _____

a) Process Annual Leave pay-out using **special pay 66**, (object code 1176). Do not exceed maximum pay-out hours per DHRM policy based on years of service.

Annual Leave Hours due employee: _____

b) Process Compensatory or Recognition Leave pay-outs using **special pay 68** (object code 1178).

Compensatory Hours due: _____ **Recognition Hours due** _____

c) Process Disability Credits or Sick Personal using **special pay 67** (object code 1177). Note 5 year service requirement.

Sick Personal balance due: _____ **Disability Credits due:** _____

Involuntary Separation Worksheet

Agency: _____ Employee Name: _____ Emp Id _____

Deductions and Benefits

1) **Healthcare** - Change Provider Code to appropriate value (object code 1173)

Provider	BES Code	Active Code	Invol Sep Code	Change Made
Kaiser Permanente HMO	KP	06	56	
COVA Care Basic	CC0	42	92	
COVA Care OON	CC1	43	93	
COVA Care ED	CC2	44	94	
COVA Care OON/ED	CC3	45	95	
COVA Care V/H/ED	CC4	46	96	
COVA Care FULL	CC5	47	97	

2) **Maintain all court-ordered deductions currently being withheld.**

3) **Ensure Group Life Insurance deduction remains Active and submit VRS-11A to Virginia Retirement System.**

4) **Deactivate the following deductions if they are active:**

Ded No.	Deduction Name	Change Made
15	Retiree Healthcare Credit	
16	Retirement	
17	Buy Back	
36	Long Term Disability	
38	Deferred Compensation	
43	Pre-tax Retirement Buyback	
45	Deferred Compensation Cash Match	

3) **With employee's election, maintain the following deductions:**

Ded No.	Deduction Name	Emp Option	Change Made
21	Dependent Care FSA	Not optional - Must be left on	
22	Medical Reimbursement FSA		
35	Optional Group Life		
39	Pre-tax (Annuities)		
41	Post-tax (Insurances)		
42	TPA Fee		
46	Annuity Cash Match (if EE continues TSA)		
48	VEST		
52-57	Savings Bonds		
58	VPEP		
59-60	Fixed Banking Deductions		
62	CVC		
69-70	Net Pay Banking Deductions		