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

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☑ Deferred Compensation and Optional Retirement Plan Errors

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

2011 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 109 – Fidelity, 111 – Political ORP, or 114 – 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 2011 or before and meet the criteria outlined below, must report the amount of imputed income to DOA for inclusion on W-2s for 2011. For employees who retired in 2011, the amount of the imputed income for the months following date of retirement must be included. 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. VRS can help you determine if terminated ORP participants have a plan account balance qualifying them for group life insurance benefits. If your agency did not receive a communication from VRS related to this subject, please contact Steve Cerreto at VRS using forms found at the end of this bulletin.

Continued on next page
2011 Tax Reporting for 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 2011 or earlier.

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, 2011 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, 2013 the amount of his life insurance coverage will be reduced to $112,500 ($150,000 * .75). In January, 2014 the amount of coverage will be reduced to $75,000 ($150,000 *.5). In January, 2015 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 $1000) by the cost shown in the table below. Use the employee's age on the last day of the tax year. 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.

http://www.doa.virginia.gov/Payroll/Forms/Post_Retirement_Life_Insurance.xls

Continued on next page
2011 Tax Reporting for ORP Retirees, continued

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<thead>
<tr>
<th>Age</th>
<th>Cost Per $1,000 of Protection For 1 Month</th>
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<tr>
<td>Under 25</td>
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<tr>
<td>25 through 29</td>
<td>.06</td>
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<td>30 through 34</td>
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<td>65 through 69</td>
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<td>70 and older</td>
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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 2011, fax the “Post Retirement Life Insurance Calculation” page to Denise Halderman at DOA (804-225-3499). In order for DOA to enter the adjustment in CIPPS before certification for the final pay period in December and calculate the amount of employment taxes due to the IRS, all forms must be submitted no later than noon on Wednesday, December 14, 2011.

Example

Tom retired in May, 2011 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 2011. The community college prepares the “Post Retirement Life Insurance Calculation” and prints a copy to fax 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.

Continued on next page
2011 Tax Reporting for ORP Retirees, continued

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.

DOA Contacts

Please contact Denise Halderman at 804-371-8912 or Cathy McGill at 804-371-7800 if you have any questions.

Reclassification of Taxable Income for Flexible Reimbursement Card Payments

Reclassification

According to IRS guidelines (Revenue Ruling 2003-43, 2006-69), all Card transactions must be validated. FBMC is permitted, under the IRS guidelines, to automatically validate (auto-adjudicate) certain transactions. In the event that FBMC cannot auto-adjudicate card transactions, FBMC requests supporting documentation by reporting those transactions in blue on employees’ monthly statements or in red at www.myFBMC.com. If documentation is not received, then the outstanding transaction amounts must be reported to the Internal Revenue Service (IRS) as income on the employee’s W-2 form, and are subject to all applicable employment taxes (including federal and state income tax withholding and FICA).

Automated Reclassification

A file will be loaded the night of November 16 which will automatically update the taxable and non-taxable fields for those CIPPS employees who have been paid in 2011. This file will simply adjust the year-to-date accumulation fields and will not process through a payrun and will not reflect on a Report 10. Therefore, any agency maintaining control totals for the purpose of balancing quarterly or calendar year-end totals will need to make manual adjustments. The amounts can be obtained from the data available on the Report 1006.

2011 Terminations - Manual Payset Required

A manual payset will be required to invoke the collection of FICA taxes for those employees who have terminated in 2011. An example of the required transaction on HTQTA is provided on the next page.

The amount of OASDI (.042) and HI (.0145) tax related to the reclassified income must be calculated. The combined total should be entered in the NET field with an adjustment indicator of ‘-’ and the individual amounts entered for OASDI and HI with an adjustment indicator of ‘+’.

The employee must be reactivated in a non-auto time card status and a time and attendance transaction for $.01 must be entered to pull through the manual payset.

The Department of Accounts will create a journal entry to charge the line agency for the uncollected employee FICA amounts.
Reclass. of Taxable Income for Flexible Reimbursement Card Payments, continued

2011 Terminations - Manual Payset Required

It is imperative that these transactions are processed in a timely manner in order for the taxes to be remitted to the IRS by the Department of Accounts. Failure to process these transactions will require payment of the taxes to the IRS via EFTPS. DOA will process the CARS transaction to create the payment and provide copies to the affected agency.

2010 Terminations

For those employees who terminated in 2010, the Department of Accounts will process W2Cs and 941Xs. DOA will process the CARS transaction to create the payment via EFTPS in conjunction with the filing of the 941X and provide copies to the affected agency.

Active Employees

No action is required for active employees as FICA will self-adjust when the employee is paid in December. However, if you have an active employee who will not be receiving any payments in December, please follow the instructions provided for employees who have terminated during 2011.

http://www.doa.virginia.gov/procedures/Payroll/PayrollBulletins/payroll.htm
Deferred Compensation and ORP Errors

Contact DOA Immediately Upon Identification of the Error

When an error occurs in processing Deferred Compensation or Optional Retirement Plan deductions there could be a financial impact on the employing agency. For Deferred Compensation, the employer may be liable for missed cash matches, 50% of any missed employee deferrals, and any missed earnings on each. For Optional Retirement Plans, the employer will be responsible for making up all missed employer contributions as well as 50% of any employee contributions along with missed earnings. The individual factors associated with the error as well as the timing of the identification of the error impacts the appropriate means of correction. (Generally a normal void which will be followed with a reissue will not constitute an error requiring extraneous actions.)

When an error is identified for either of these plans, contact DOA immediately. Correct the employee’s record for future payrolls but do not make any retroactive corrections until you have received directions from DOA and/or VRS. In most cases a Mistake of Fact (MOF) form will be required for Deferred Compensation error and a Correction of Eligibility Failure (CEF) form for ORPs will be required to initiate corrective actions.

When an error is detected, contact Cathy McGill (cathy.mcgill@doa.virginia.gov) or Lora George (lora.george@doa.virginia.gov). Provide the specifics of the sequence of events along with the employee name and employee number. After DOA has performed an initial analysis, you will be contacted for additional information as determined necessary.
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<th>Employer #</th>
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<th>Contact Email</th>
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<th>Contact Fax</th>
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**State Employers: ORP Retirees With Imputed Income**  
Optional Retirement Plan Account Balance Verification

Fax this template to Stephen Cerreto, Defined Contribution Plans Officer at 804-786-1541  
**DO NOT EMAIL THIS TEMPLATE. VRS EMAIL IS NOT SECURE**

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<th>SSN</th>
<th>Last Name</th>
<th>First Name</th>
<th>Current ORP Provider</th>
<th>Previous ORP Providers</th>
<th>VRS ORP Balance Research</th>
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**Fax to:** Steve Cerreto, Defined Contribution Plans Officer, at 804-786-1541. Please do not email your request.

Revised: 11/1/11