2013 Imputed Income for Terminated ORP Participants Eligible for Continued Group Life

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 terminated 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 former employee.

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 ORP participants who terminated in 2013 or before and meet the criteria outlined below, must report the amount of imputed income to DOA for inclusion on W-2s for 2013. For ORP participants who terminated in 2013, the amount of the imputed income for the months following date of termination must be included in taxable income. 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 former employee 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 Commonwealth’s’ GTL policy at separation from service (VRS Employer Manual, Chapter 5, page 23). 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 the form found at the end of this bulletin.

Continued on next page
2012 Imputed Income for ORP Participants Eligible for Continued Grp Life, continued

Reporting Criteria

The following criteria should be used to determine which employees are impacted:

• Employee elected to participate in one of the optional retirement plans instead of VRS, and
• Employee 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
• Employee’s final annual salary is greater than $25,000, and
• Employee terminated or retired during 2013 or earlier.

Amount of Insurance Coverage

At the time the employee retires or terminates, 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, 2013 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, 2015 the amount of his life insurance coverage will be reduced to $112,500 ($150,000 * .75). In January, 2016 the amount of coverage will be reduced to $75,000 ($150,000 *.5). In January, 2017 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 $1,000) 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. Use the “Post Retirement Life Insurance Calculation Worksheet for ORP Retirees” to calculate imputed income for calendar year 2013.

http://www.doa.virginia.gov/Payroll/Payroll_Main.cfm

Continued on next page
2013 Imputed Income for ORP Participants Eligible for Continued Grp Life, continued

<table>
<thead>
<tr>
<th>Age</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Under 25</td>
<td>$.05</td>
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<td>25 through 29</td>
<td>.06</td>
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<td>30 through 34</td>
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<td>35 through 39</td>
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<td>2.06</td>
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If you have ORP participants 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 former employee 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.

Once you have completed the spreadsheet for the imputed income that needs to be added to the former employee’s CIPPS record for 2013, 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 Friday, December 13, 2013.**

Tom retired in May, 2013 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 2013. 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.
2013 Imputed Income for ORP Participants Eligible for Continued Grp Life, 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. Former employees 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. The TPA is permitted, under the IRS guidelines, to automatically validate (auto-adjudicate) certain transactions. In the event that the TPA cannot auto-adjudicate card transactions, the TPA requests supporting documentation from the employee. 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 in early December which will automatically update the taxable and non-taxable fields for those CIPPS employees who have been paid in 2013. 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.

**2013 Terminations - Manual Payset Required**
A manual payset will be required to invoke the collection of FICA taxes for those employees who have terminated in 2013. An example of the required transaction on HTQTA is provided on the next page.

The amount of OASDI (.062) 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

2013 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.

2012 Terminations

For those employees who terminated in 2012, 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 2013.
Name and Address Format Requirements

- **Name (e.g. suffix) and Address Format Requirements**
  1. Name must match exactly what is on social security card.
  2. Name fields can only contain letters, numbers (0-9), spaces, hyphens, periods, and/or apostrophes. Do not use accent marks.
  3. Suffixes must be in this format: last name,(space)suffix; for example, Smith, Jr
     Do not use periods after the suffix or extra spaces between the last name and suffix.
  4. All names, addresses, city, state and zip code entries must begin in the first position of the field. Do not leave any blank spaces at the beginning.
  5. You must use a space or dash between the zip code and the extension; zip codes are five digits and extensions are four digits. For example, 22032-1712 or 22032 1712
  6. Do not use periods in state abbreviations; for example, NC not N.C.
  7. State abbreviations must be in the state field, not in the city field or zip code field. Do not use commas after the city name.
  8. You must use alpha characters (letters) in the state abbreviations on the address line; for example, OH not 0H (zero-H is not Ohio)
  9. You must use the official USPO two-position abbreviation for the state name; do not spell out the state name or try to extend it beyond two characters.

VRS Benefit Corrections Policy for Administrative Errors (not Insufficient Funds)

- **Timely Review of VRS Automated Reconciliation**
  Timely review of the VRS Automated Reconciliation and corrective actions are essential to minimize the length of time any discrepancy or error remains in place. However, with the delayed roll-out of the automated reconciliation and the less-than-timely availability of the VRS “Bill” file even the most diligent Finance Office may experience delayed identification of administrative errors. Therefore, DOA has established a policy specific to Administrative Errors to set guidelines for collection of VRS Benefits due in order for the employee to maintain service credit.

  A certification statement will be added to the Quarterly Reconciliation and Certification form and the Year-End Certification form indicating that the Fiscal Officer affirms the retirement account reconciliations have been reviewed and corrective actions taken in CIPPS/VNAV or both.
VRS Benefit Corrections Policy for Administrative Errors (not Insufficient Funds), continued

Administrative Error Policy

Agencies are responsible for reviewing the automated VRS retirement reconciliation reports on a monthly basis and are also responsible for ensuring that the necessary corrections are made in the applicable system(s) in a timely manner. Failure to do so may result in errors to members’ accounts and taxable income.

Administrative errors that result in underpayment of member contributions by employees should be corrected as follows:

- Employees should be notified as soon as possible.

- Employer should provide employee with written explanation of the error and repayment schedule. This document should also include a statement explaining that full amount will be due at termination and failure to pay will result in loss of service credit. Employee and agency representative should both sign the document.

- Repayment is mandatory; however, the employee may choose to:
  - make full payment on their next regular pay date through payroll deduction;
  - make partial payments through payroll deduction over multiple pay periods, but in no cases should the repayment occur over a longer period of time than the underpayment occurred or be less than the full amount owed for a pay period; or
  - write a personal check to be received within 30 days of date of notification or termination (agency will need to process manual payset to reclassify net pay to deduction 012).

- Retirement must be paid for the full month; unpaid partial months will be refunded to employee and service credit removed from VNAV.

- Agencies must seek DOA SPO approval for repayment arrangements for errors that occurred over a period of more than three months.
## State Employers: Terminated ORP Participants with Imputed Income
### Optional Retirement Plan Account Balance Verification

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<td>Contact Phone</td>
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<td>Contact Name</td>
<td>Contact Fax</td>
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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>
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<th>Current ORP Provider</th>
<th>Previous ORP Providers</th>
<th>VRS ORP Balance Research</th>
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Revised: 11/16/12