Department of Accounts Payroll Bulletin

Calendar Year 2014 November 18, 2014 Volume 2014-15

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

- 2014 Imputed Income for Terminated ORP Participants Eligible for Continued Group Life
- Administrative Fee on Hybrid, 457 and Cash Match Adjustments

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

2014 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 for a period of time 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 2014 or before and meet the criteria outlined below, must report the amount of imputed income to DOA for inclusion on W-2s for 2014. For ORP participants who terminated in 2014, 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 18). VRS service credits the employee may have in addition to the employee's ORP service credits count towards meeting the age/service requirements. Each institution must verify whether their eligible terminated ORP participants have a plan account balance qualifying them for group life insurance benefits. Employers will receive an email from VRS outlining the procedures. If your agency did not receive a communication from VRS related to this subject, please contact Steve Cerreto for procedures on how to work with the providers for balance information using the forms found at the end of this bulletin.

Calendar Year 2014 November 18, 2014 Volume 2014-15

2014 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 2014 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, 2014 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, 2016 the amount of his life insurance coverage will be reduced to \$112,500 (\$150,000 * .75). In January, 2017 the amount of coverage will be reduced to \$75,000 (\$150,000 * .5). In January, 2018 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 <u>last day of the tax year</u>. 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 2014.

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

Continued on next page

2014 Imputed Income for ORP Participants Eligible for Continued Grp Life, 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 Participants no longer on CIPPS

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.

W-2 Reporting

Once you have completed the spreadsheet for the imputed income that needs to be added to the former employee's CIPPS record for 2014, 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 <u>no later</u> than noon on Friday, December 12, 2014**.

Example

Tom retired in May, 2014, 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 2014. 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

Calendar Year 2014 November 18, 2014 Volume 2014-15

2014 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.

Administrative Fee on Hybrid, 457 and Cash Match Plan Adjustments

Effective January 1, 2016

VRS announced in the October edition of the VRS Employer Update that an administrative fee on adjustments made to the Hybrid, 457 and Cash Match plans will be implemented effective January 1, 2016. The VRS publication emphasized the importance of reconciling VNAV Snapshot information to payroll monthly; however, it should also be taken into account that the publication was crafted to communicate to all VRS employers and was not specifically directed to CIPPS employers. For CIPPS employers the reconciliation is performed centrally with distributed reports.

DOA has found that the largest potential for error is due to discrepancies between PMIS and VNAV. It is recommended that the creditable compensation in VNAV should be reconciled to PMIS and adjustments entered as needed to tie the values in both systems together prior to confirmation of the Snapshot. The reconciliation does not need to go down to the deduction level. If creditable compensation is correct, the deductions will calculate correctly.

Processing guidelines:

- Do not establish retirement or deferred compensation information outside of the automated updates from VNAV/ICMA to CIPPS (except in cases of ORP elections once the election form is sent to VRS the information can be updated in CIPPS.)
- Be sure to review the VNAV Cancelled Records report and the error reports created from the various automated update processes for VRS programs (U063, U185, U186) and take corrective action promptly.

While the administrative fee will apply to CIPPS employers, the impact should be minimal if these guidelines are followed. DOA and VRS continue to discuss unique processing/system challenges (such as void checks) in the hopes of obtaining a limited exception. If an error is caused by VRS or ICMA there will be no fee assessed. However, in no case will an employer processing oversight or error be excused from the fee.

FIDELITY INVESTMENTS

Fax to Fidelity Investment: 877-800-5712, Attn. Tom O'Rourke

State Employers: Terminated ORP Participants with Imputed Income Optional Retirement Plan Account Balance Verification

Employer #		Contact Email	
Employer Name		Contact Phone	
Contact Name	•	Contact Fax	

Fax this template to Fidelity Investments for participants that used Fidelity Investments as their provider,

<u>Fax: 877-800-5712, Attn. Tom O'Rourke</u>

DO NOT EMAIL THIS TEMPLATE. EMAIL IS NOT SECURE

E	mployer Completes	loyer Completes Fidelity Completes Employer Completes			
SSN	Last Name	First Name	Balance (Yes or No)	Date of Zero Balance*	GLI Eligible, Grandfathered* or Not GLI Eligible

^{*} Participants with a zero balance on or before 6/15/2010 are grandfathered and will qualify for retiree group life insurance.

Revised: 11/14/14

TIAA-CREF

Fax to TIAA-CREF: (704) 988-1470, Attn. Yolanda Langford, Account Balance Project

State Employers: Terminated ORP Participants with Imputed Income Optional Retirement Plan Account Balance Verification

Employer #	Contact Email	
Employer Name	Contact Phone	
Contact Name	Contact Fax	

Fax this template to TIAA-CREF for participants that used TIAA-CREF as their provider Fax: (704) 988-1470, Attn. Yolanda Langford, Account Balance Project

DO NOT EMAIL THIS TEMPLATE. EMAIL IS NOT SECURE

E	Employer Completes		TIAA-CREF Completes		Employer Completes
			Current Balance or Annuity	Date of Zero Balance or Annuity	GLI Eligible, Grandfathered*
SSN	Last Name	First Name	(Yes or No)	Expiration*	or Not GLI Eligible

^{*} Participants with a zero balance or an expired annuity on or before 6/15/2010 are grandfathered and will qualify for retiree group life insurance.

Revised: 11/14/14

Revised: 11/16/12