

Department of Accounts

Payroll Bulletin

Calendar Year 2021

November 25, 2021

Volume 2021-10

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the Payroll
Bulletin.....*

- ✓ **2021 Imputed Income for Terminated ORP Participants Eligible for Continued Group Life (Applies to HCM Payroll and CIPPS agencies)**

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) 225-2245 or Email at cathy.mcgill@doa.virginia.gov

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2021 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 107 – ORPHE DC; 109 – Fidelity (no longer used, but still included); 111 – Political ORP; or 114 – TIAA). 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 2021 or before and meet the criteria outlined below, must report the amount of imputed income to DOA for inclusion on W-2s for 2021. For ORP participants who terminated in 2021, 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 (<https://employers.varetire.org/pdfs/er-manual-group-life-insurance.pdf>, page 9). VRS service credits the employee may have in addition to the employee’s ORP service credits count towards meeting the age/service requirements. In accordance with the VRS policy changes effective January 1, 2017, terminated ORP participants are no longer required to maintain a plan account balance to qualify for group life insurance benefits. ORP participants must meet the age and service requirements for reduced or unreduced retirement under the VRS plan for which the employee would have been eligible, based on hire date, had the employee not elected ORP. Employers should review their list of group life insurance imputed income tax eligible retirees in the VRS Navigator to determine if any of their participants are deceased. Employers will receive an email from VRS outlining the procedures to request reporting in myVRS Navigator to assist in validating your terminated ORP participants. If your agency did not receive a communication from VRS related to this subject, please contact ORPHE@varetire.org.

2021 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 under Plan 1 and at least 60 with 5 years of service under Plan 2), and
- Employee’s final annual salary is greater than \$25,000, and
- Employee terminated or retired during 2021 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 2021 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 2023 the amount of his life insurance coverage will be reduced to \$112,500 ($\$150,000 * .75$). In January 2024 the amount of coverage will be reduced to \$75,000 ($\$150,000 * .5$). In January 2025 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 under Payroll – Important Documents. Use the “Post Retirement Life Insurance Calculation Worksheet for ORP Retirees” to calculate imputed income for calendar year 2021.

<https://www.doa.virginia.gov/reference/payroll>

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

<u>Age</u>	<u>Cost</u>
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

2021 Imputed Income for ORP Participants Eligible for Continued Grp Life, *continued*

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.
HCM Payroll Agencies	Release 1 agencies currently using payroll must complete and submit the Post Retirement Life Insurance Calculation Worksheet for ORP Retirees as well. SPO will add the amount of imputed income to the employee record in HCM. No changes to employee records are required at the agency level.
W-2 Reporting	Once you have completed the spreadsheet for the imputed income that needs to be added to the former employee's record for 2021, email the "Post Retirement Life Insurance Calculation" page to State Payroll Operations at payroll@doa.virginia.gov. In order for DOA to enter the adjustment in CIPPS or HCM 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 close of business on Monday, December 6, 2021, and PRIOR to your final certification for this calendar year.
Example	Tom retired in May 2021, 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 2021. 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.
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.
