

# Department of Accounts

## Payroll Bulletin

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The Payroll Bulletin is published periodically to provide CIPPS agencies guidance regarding Commonwealth payroll operations. If you have any questions about the bulletin, please email [payroll@doa.virginia.gov](mailto:payroll@doa.virginia.gov)

### State Payroll Operations

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## 2024 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. 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 2024 or before and meet the criteria outlined below, must report the amount of imputed income to DOA for inclusion on W-2s for 2024. For ORP participants who terminated in 2024, 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 does not receive a communication from VRS related to this subject, please contact [ORPHE@varetire.org](mailto:ORPHE@varetire.org).

**2024 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 2024 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 2024 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 2025 the amount of his life insurance coverage will be reduced to \$112,500 ( $\$150,000 * .75$ ). In January 2026 the amount of coverage will be reduced to \$75,000 ( $\$150,000 * .5$ ). In January 2027 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**

Calculate 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. Calculate 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” (updated 11/15/2024) to calculate imputed income for calendar year 2024.

<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

## 2024 Imputed Income for ORP Participants Eligible for Continued Grp Life, *continued*

<b>HCM Record Set UP</b>	Retired participants in ORPHE plans must have a job data record in HCM. Please refer to BN361, ORP Retiree Guide for detailed information. This set up must be completed before the imputed income can be processed. Employees must be in the “MNP” paygroup of the agency from which they retired.
<b>Calculation Worksheet</b>	All agencies must complete and submit the Post Retirement Life Insurance Calculation Worksheet for ORP Retirees. SPO will add the amount of imputed income to the employee record in HCM.
<b>Reporting Deadline</b>	Once you have completed the spreadsheet for the imputed income that needs to be added to the former employee’s record for 2024, load the “Post Retirement Life Insurance Calculation” page to the Paysheet and Off Cycle Request folder in SPO SharePoint. State Payroll Operations must process a “manual check” confirmation to generate the earnings codes used to report uncollected OASDI and HI for these employees. This confirmation is run one time only so ALL ORPHE participants who terminated during or before 2024 <b>MUST</b> be included. <b>All forms must be submitted <u>no later</u> than close of business on Monday, December 2, 2024.</b>
<b>Example</b>	Tom retired in May 2022, 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 2024. The community college prepares the “Post Retirement Life Insurance Calculation” and submits a copy to the Paysheet and Off Cycle Request folder in SPO SharePoint. DOA compares the YTD amount in HCM 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.
<b>Payment to IRS</b>	DOA will make the federal tax deposit for the employer portion of the OASDI and HI taxes with taxes due for pay date 12/16. Former employees will be responsible for the employee portion when they file their income tax returns.