

A collage of four images on the left side of the slide: a green lawn with trees, a building with a tower, a classical archway, and a blue sky with clouds.

# UNIVERSITY OF ILLINOIS

AT URBANA-CHAMPAIGN



## 2011 BUSINESS LEADERSHIP CONFERENCE

# Current Issues in University Payroll & Benefits (UPB)

April 6, 2011 9:00am-10:15am

April 6, 2011 1:45pm – 3:00pm

# Workshop Panel

- Name: Jim Davito - Moderator  
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- Name: Brenda Butts  
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# Workshop Panel

- Name: Pamela Hatton  
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# Additional Resources

- Name: Laura Barnett  
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# Please ...

- Turn off cell phones
- Avoid side conversations
- Hold questions until the end of each topic
- Sign the attendance roster
- Complete the evaluation at the end of the workshop

# Workshop Objectives

Inform units of UPB policies and procedures regarding:

- 403(b) & 457 Plans
- Retirees and Social Security & Medicare
- Mandatory Direct Deposit and Electronic Earnings Statements
- Substantial Presence Test (SPT) and how it affects benefit eligibility
- Overpayment Service Fee

# 403(B) & 457 PLANS

Presenter: Carole Devaney

## Terminal Benefit Payout

- Introduction
- 403(b) & 457 Plans
  - Social Security Alternative
  - Terminal Benefit Payout



# 403(b) & 457 Plans

- A 403(b) plan, also known as a tax sheltered annuity (TSA) plan, is a retirement plan for certain employees of public schools and employees of certain tax-exempt organizations and is similar to a 401(k) plan for private-sector workers.
- The 457 State of Illinois Deferred Compensation Plan is a supplemental tax-deferred retirement plan for state employees.

# 403(b) & 457 Plans

- 2011 limits:
  - General Limit: Under age 50 - \$16,500
  - Catch-Up Provision: Age 50 and Over \$22,000
- Special Catch-Up Provisions
  - A Special Catch-Up Provision is available in both plans.

# 403(b) Special Catch-Up

- Employees who have worked for the University of Illinois for 15 years may qualify for the 403(b) special catch-up provision. This provision allows up to an additional lifetime contribution of \$15,000.
  - Generally \$3,000 per year for five years.
  - IRS requires that any dollars over the general limit of \$16,500 be applied to the 15-year special catch-up provision first.

# 403(b) Special Catch-Up

- Example: 50 year old employee eligible for 15 year catch-up
  - \$22,000 contributed in 2010:
    - \$16,500 applied to general limit
    - \$3,000 applied to 15 yr special catch –up
    - \$2,500 applied to the age 50+ catch-up
- \$15,000 allowed for 15 year special catch-up and \$3,000 applied for 2010
  - \$12,000 remaining

# 457 Special Catch-Up

- The 457 special catch-up provision is \$33,000 in 2011.
- This provision can only be elected during the three years (consecutive) prior to, but not including, the year the participant attains normal retirement age, as defined by the 457 Plan.
- Eligibility and contribution amounts are determined by Deferred Compensation.

Questions / Concerns?

457 Plan

# **SOCIAL SECURITY ALTERNATIVE OPTION**

# 457 Plan Social Security Alternative Option

- A Social Security Alternative election is available in the 457 Deferred Compensation plan only.
- Contractual employees may use the Plan as an Alternate Retirement System as defined in IRS regulations.
- The only deferral amount allowed is 7.5 %.



Questions / Concerns?

403(b) & 457 Plans

# **TERMINAL BENEFIT PAYOUTS**

# Terminal Benefit Payouts

- Employees separating from the University may direct contributions from a vacation or compensable sick leave payout to the 403(b) and/or 457 plan.
- Employees must contact their campus UPB Benefits Office and complete forms at least 60 days prior to their last day of employment to ensure enrollment deadlines are met.

# Terminal Benefit Payouts

- Written verification of estimated compensable sick and vacation leave payout is required from employees' departments.
- Employees must notify UPB in writing if any leave time is used after the estimate is provided.

# Terminal Benefit Payouts

- Keep in mind that the following deductions may be taken from the TBP check:
  - SURS: 8% of vacation leave
  - Medicare: 1.45% if required
  - Additional tax withholding election
  - Involuntary withholding, e.g., garnishments
- It is recommended that employees cap contributions at 80% of payout or the IRS contribution limit, whichever is less.

Questions / Concerns?

# RETIREES AND SOCIAL SECURITY & MEDICARE

Presenter: Brenda Butts

# Retirees - Social Security & Medicare

The Medicare program is an insurance program provided by the Federal Government and is administered by the Federal Centers for Medicare & Medicaid Services.



# Medicare

This section will provide information on the federal health insurance program Medicare:

- What is Medicare Part A
- What is Medicare Part B
- What is Medicare Part D
- Who is Eligible
- Enrollment Periods

# Medicare Part A

## Medicare Part A

- Provides coverage for:
  - Hospital Care
  - Skilled Nursing Facility Care
  - Home Health
  - Hospice Care

# Medicare Part B

## Medicare Part B

- Provides coverage for:
  - Physician/Professional Care
  - Outpatient Hospital Care
  - Other Medical Services
- Medicare Part B plan pays 80% of all Medicare approved amounts when Medicare is the Primary Payer.
  - Your health insurance plan pays up to the 20% coinsurance that remains after Medicare Part B payment.

## Medicare Part B

- When Medicare Part B is not purchased
  - Medicare will impose a 10% penalty for each year Medicare Part B was not purchased.
  - Your health insurance plan will continue to pay only the 20% coinsurance.
  - Medicare Part B 80% portion becomes your responsibility and will continue until Medicare B becomes effective.

# Medicare Part B

- Individuals eligible for premium-free Medicare Part A, must enroll in Medicare Part B, but
- Individuals who are actively working should contact their local SSA office for information on delaying the purchase of Medicare Part B.
- Individuals who are not eligible for premium-free Medicare Part A, are not required to purchase Medicare Part B.

# Medicare Part D

## Medicare Part D

- Provides Prescription Drug benefits.
  - It is recommended that University of Illinois employees do not enroll in a Medicare Part D Plan unless qualified for low-income/extra-help assistance because the University coverage is the same or better than the Medicare Part D benefit.

# Eligibility

## Eligibility for Medicare:

- Individuals age 65 and older, or
- Receiving Social Security or Railroad Retirement benefits, or
- Disability benefits for over 24 months, or
- End Stage Renal Disease (ESRD)
- University employees hired after April 1, 1986, pay 1.45% Medicare tax on their eligible salary.
- The work history of a former or current spouse.

# Medicare Enrollment

Employees/Retirees should **contact their local SSA office three months prior to turning age 65 to verify eligibility for Medicare.**

- To enroll in premium-free Medicare Part A benefits or purchase Medicare Part A
- Purchase Medicare Part B
- Receive written verification of non-eligibility for premium-free Medicare Part A
- To prevent a break in Medicare coverage due to timing



# Medicare Enrollment Period

The initial Medicare enrollment period is for 7 months beginning 3 months before your 65th birthday.

1 <sup>st</sup> , 2 <sup>nd</sup> & 3 <sup>rd</sup> Months before turning age 65	Medicare coverage is effective the month you turn age 65.
4 <sup>th</sup> Month	Medicare coverage is effective one month after turning age 65.
5 <sup>th</sup> Month	Medicare coverage is effective two months after turning age 65.
6 <sup>th</sup> & 7 <sup>th</sup> Months	Medicare coverage is effective three month after turning age 65.

# Retirees - Social Security & Medicare

Due to the complexity associated with Medicare and Coordination of Benefits (COB), it is highly recommended that questions be submitted to:

- CMS Medicare COB Unit
  - 1-800-442-1300
- Your local Social Security Office

Questions / Concerns?

# MANDATORY DIRECT DEPOSIT AND ELECTRONIC EARNINGS STATEMENTS

Presenter: Pamela Hatton

# Mandatory Direct Deposit and Electronic Earnings Statements

In an effort to support a paperless society and reduce the cost for printing and distributing paper earnings statements and checks, beginning July 1, 2011 University Policy will begin mandating electronic earnings statements and direct deposit.

# Mandatory Direct Deposit and Electronic Earnings Statements

- All employees will be required to sign up for direct deposit and will have to access Nessie to view and/or print their earnings statements.
- Communication has been attached to employees' paper checks and earnings statements notifying them of the July 1, 2011 implementation date.
- UPB will continue attaching the communication through June 16<sup>th</sup>.

# Mandatory Direct Deposit and Electronic Earnings Statements

- All employees can access Nessie to view their electronic earnings statements.
- For those receiving paper earnings statements they can choose to stop the printing of these statements prior to July 1 through Nessie.
- After the July 1<sup>st</sup> effective date, all printing of paper earnings statements will be discontinued.

# Mandatory Direct Deposit and Electronic Earnings Statements

- Employees that do not provide their bank account information by July 1 will receive a pay card for their July pay.
  - The pay card will need to be picked up at their campus Payroll Customer Service office.
  - Their pay will continue to be deposited on the pay card until the employee provides their bank account information either through Nessie or to their campus Payroll Customer Service office.



# Mandatory Direct Deposit and Electronic Earnings Statements

Employees hired prior to August 1, 2003 will no longer be grandfathered as an exception to the direct deposit mandate and will be required to enroll in the direct deposit program.

Questions / Concerns?

# SUBSTANTIAL PRESENCE TEST (SPT)

Presenters: Pamela Hatton  
Brenda Butts

# Substantial Presence Test (SPT)

- Substantial presence test is a test defined by the IRS to determine if a foreign national qualifies as a resident alien or a non resident alien for tax purposes. In order to qualify, the foreign national should be physically present in the United States for at least:

# Substantial Presence Test (SPT)

- ***31 days during the current calendar year; and 183 days during the three-year period*** that includes the current year and the two years preceding the current year to be considered to have the honor of paying and filing taxes as a US resident.
- This will also have an effect on their eligibility for SURS or benefits.

# Substantial Presence Test (SPT)

Eligibility for the State of Illinois Employees Group Insurance Program is determined by the State Employees Group Insurance Act of 1971.

All employees must meet the following criteria in order to be eligible for the State Employees Group Insurance Program:

- Eligible to participate in SURS (4 month FTE 1% greater)
- Paid by the University of Illinois
- Job for at least 4.5 months at 100%

# Substantial Presence Test (SPT)

Employees who meet Substantial Presence Test (SPT) effective January 1, 2011 are required to begin paying into SURS from their first pay check paid in the new year, 2011.

Employees become eligible for Insurance coverage on or after 01/01/2011.

# Substantial Presence Test (SPT)

Employees who pass the SPT become eligible to participate in the State of Illinois Group Insurance Programs on January 1, 2011 must have a job going forward that is at least 4.5 months at 100% or 9 months at 50%.



# Substantial Presence Test (SPT)

Employees with less than the required time period may become eligible upon receiving a new job.

- SPT passed on 01/01/2011, Job end date of 03/31/2011
  - Not eligible for insurance benefits
- New job 02/28/2011 to 08/15/2011
  - Benefits notified of the change on 03/01/2011
- As of 03/01/2011 employee meets the minimum time requirement of 4.5 months at 100% and is eligible for insurance paying part-time insurance premiums.  $(5.5/9 = .61 \times 100 = 61\%)$

# Substantial Presence Test (SPT)

Insurance periods are from the first of the month to the end of the month for monthly paid employees.

The bi-weekly paid employees have insurance periods from the 1st to the 15<sup>th</sup> and the 16<sup>th</sup> to the end of the month.

# Substantial Presence Test (SPT)

Employees who pass the SPT later in the year are eligible for insurance on the date UPB Benefits is notified of the change in residency status.

- SPT passed on 4/5/2011
- UPB Benefits notified 5/5/2011
- Employee eligible for coverage 05/05/2011 if job meets the 4.5 at 100% equivalent from 05/05/2011 forward.

Questions / Concerns?

# OVERPAYMENT SERVICE FEE

Presenter: Don Smith

# Overview

To inform campus of issues related to over-payment of wages:

- Historical Overpayment Process (Pre 2008)
- 2007 Audit on Overpayment Process
- Current Process
- Challenge of Overpayments
- Upcoming Change in Process
- Steps to Help Minimize Overpayments

# Historical Overpayment Process

- Department notified University Payroll & Benefits (UPB) via Adjustment Notification Application (ANA)
- UPB calculated NET payment due from employee
- Unit had responsibility to collect amounts overpaid from employee and track repayment arrangements
- UPB was notified of amounts collected to correct current and/or prior year-to-date wages
- Amounts not collected by units were never questioned or tracked by UPB

# 2007 Audit

## Findings:

- Inconsistencies with collection of overpayment (forgive vs not to forgive)
- No tracking of collection activity by units
- Lack of notification to University Payroll & Benefits (UPB) on collected amounts



## 2007 Audit (continued)

Audit resulted in UPB being required to take on collection and tracking responsibility for all overpayments

- Collection from active employee pay
- Collection of repayments by check from employees and former employees
- Repayment agreements
- Initiating USFSCO Collections (including possibility of 3<sup>rd</sup> party collections agencies)

# Current Overpayment Process

- Department notifies employee and submits ANA to UPB
- UPB manually processes the overpayment by:
  - Loading ANA information into overpayment database
  - Calculating overpayment gross amount
  - Determining collection method (gross or net)
  - Calculating correct net (including deductions and taxes) when required

# Current Overpayment Process

- Manual Process (con't):
  - Notifying employee of their liability and tracks 2-week repayment deadline
  - Initiating collections for each employee after 2-week deadline has passed
  - Entering gross collections or setting up deductions for collection of net during each calc and monitor collection activity
  - Gathering collection information and applying/distributing it to the correct ANA transactions to update collection status

# Current Overpayment Process

- Manual Process (con't):
  - Entering reversal transactions for each net repayment
  - Tracking repayment activity and creates spreadsheet for USFSCO collections; identifying FOAP for Grants & Contracts.
  - Correcting transactions for tax reporting; Federal/State and FICA taxes
  - Communicating with employees and departments throughout the process, sending updates to amounts owed, notice of closed overpayments, corrected W2-C and tax letters

## Challenge:

- Administration is costly and labor intensive
- Resources required exceed the resources available: 2-3 FTE required

# Challenge:

- Overpayment volume on the rise
  - 2,070 overpayments logged in 2009;  
2,355 logged in 2010
    - 62 overpayments per pay calc
    - 45 overpayments identified each week
  - \$2,500,000.00 overpaid in 2009  
\$2,670,000.00 in 2010
  - \$2,000,000.00 collected in 2009  
\$3,460,000.00 collected in 2010
  - Continuing compliance is needed

# Upcoming Change

- Effective in FY 2012
- 6% Service Fee charged to units for overpayment amounts collected
- Not tied to date of overpayment, but date of collection activity

This will ensure continued compliance and improve overall quality of service

# Option for Appeal

If you feel the charge is unfair, an appeal process is available:

- Payroll Error
- HR Timing
- Other



# How can I minimize Overpayments?

## Overpayment Prevention:

- Job Records, Time Entry
- Current pay period adjustment
- Review Labor Distribution reports
- Pay Stop

# Workshop Summary

Inform units of UPB policies and procedures regarding:

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