State of Arizona Accounting Manual

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INTRODUCTION

A State employee who is eligible to participate in an Authorized State Retirement System may be eligible to receive partial payment for his accumulated sick leave balance of five hundred (500) or more hours, if he fulfills the terms and conditions set forth in this section of SAAM.

It is to be noted that SAAM, when possible, refers to one's discontinuation of employment using the neutral term "separation," while the language of the governing statutes and certain other forms, documents and payroll systems use the word "termination," which may have a negative connotation.

The term "Program," as used in this section of SAAM refers to the Retiree Accumulated Sick Leave (RASL) Program as established by A.R.S. § 38-615 and administered by GAO's Central Payroll Unit in compliance with A.R.S. § 38-616.

POLICIES & PROCEDURES

1. *General*

1.1. The Arizona Department of Administration (ADOA) shall establish and administer the RASL fund and shall maintain individual records for each person receiving this benefit.

1.2. A retiree shall be paid, in varying amounts and within prescribed limits, in exchange for all of his accumulated sick leave hours.

1.3. The retiree may elect to roll a portion of the first payment into a State-sponsored deferred compensation account in accordance with the deferred compensation plan limits.

1.4. Any subsequent payments may be eligible for rollover into deferred compensation if the employee has returned to work for the State.

1.5. The Program reserves the right to accelerate or adjust the disbursement of payments subject to Program requirements and the availability of funds.

1.6. The RASL benefit is subject to all payroll and withholding taxes, including Federal and State income taxes as well as Social Security and Medicare.

1.7. The RASL benefit does not accrue interest.

2. *Eligibility*

2.1. State employees who are eligible for retirement benefits under an Authorized State Retirement System or employees of a university under the jurisdiction of the Arizona Board of Regents who participate in a Federal Retirement System are eligible for Program participation.

2.1.1. Seasonal, clerical pool or other classes of employees not eligible for retirement benefits are not eligible for this Program.

2.2. Eligible State employees having at least five hundred (500) accumulated sick leave hours that have been accumulated in accordance with the State-approved personnel policies are eligible under this Program. The accumulated sick leave hours must be available for use at the time of separation from employment.

2.3. The compensation rules, regulations or statutes to which the employee is subject must provide for the forfeiture of all accumulated sick leave hours upon retirement.

2.4. In order to be eligible for this Program, a retiree must have an effective retirement date on file with an Authorized State Retirement System that is at least one (1) calendar day after the retiree's separation from State employment and is not later than thirty-one (31) calendar days following the date of his separation from State employment.

2.5. A completed Form GAO-SL-50 must be filed with the GAO within one hundred eighty (180) calendar days following his effective retirement date; failure to do so shall constitute abandonment and forfeiture of the retiree's right to the Program benefit.

2.6. Although Arizona law (A.R.S. § 38-764.I.) allows certain ASRS members to retire and receive a pension without separation from employment, the RASL Program requires separation from service with retirement.

2.7. State employees who establish a deferred retirement date with an Authorized State Retirement System are not eligible for participation in this Program.

3. Employee Status

3.1. An eligible State employee whose effective retirement date is not later than thirty-one (31) calendar days following his separation from employment may receive the RASL benefit, regardless of the pay status on his last day of employment. Pay statuses include, but are not limited to, regular pay, annual leave, sick leave, leave without pay, civic duty leave, etc.

3.2. If an employee separates from State employment and is later reinstated in accordance with State personnel rules and policies, the employee will, if he meets

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the other requirements, be eligible upon retirement for the RASL benefit provided that the employee has the requisite number (i.e., five hundred (500) or more) of accumulated sick leave hours at the time of separation.

3.3.   All accumulated sick leave hours are forfeited upon the retiree's participation in the Program and cannot be used for any other purpose. If a retiree has elected to take the Program benefit and subsequently re-enters State employment, the accumulated sick leave hours will not be eligible for reinstatement under State personnel policies and rules (including R2-5A-B603.F.). The retiree will re-enter State service with an accumulated sick leave balance of zero (0) hours.

4.   *Benefit Value Calculations*

4.1.   The benefit value received by the retiree for the accumulated sick leave balance increases according to a graduated scale. It is calculated by taking the State hourly rate of pay at the separation date, multiplied by the number of total accumulated sick leave hours (up to one thousand five hundred (1,500) maximum hours) at the separation date, times the appropriate percentage below:

4.1.1.   25% (if total accumulated sick leave hours are at least 500, but fewer than 750 hours); or

4.1.2.   33% (if total accumulated sick leave hours are at least 750, but fewer than 1,000 hours); or

4.1.3.   50% (if total accumulated sick leave hours are at least 1,000 up to the maximum of 1,500 hours).

4.2.   The maximum number of accumulated sick leave hours compensated under the Program is one thousand five hundred (1,500). Hours in excess of one thousand five hundred (1,500) cannot be used for any other purpose and will be forfeited and purged from all official payroll systems upon retirement and enrollment in the RASL Program.

4.3.   The maximum benefit value is thirty thousand dollars ($30,000) per person, per retirement system.

5.   *Tax Ramifications for the Retiree*

5.1.   The Program benefits are treated as supplemental wages, not retirement benefits, for tax purposes, and are reported on one's Form W-2.

5.2.   The Program benefits are subject to all applicable tax laws. The Program benefits are subject to Social Security and Medicare taxes. Other applicable tax withholdings are based on the most current Federal and State withholding elections provided by the retiree.

6.   *Warrant or Direct Deposit Payments*

6.1.   Payments will be paid by warrant unless the direct deposit option is selected on Form GAO-SL-50.

6.2.   If electing to be paid by direct deposit, the retiree must provide a voided check with the retiree's name printed on the check or a letter from his financial institution with account information along with Form GAO-SL-50.

6.2.1.   Handwritten account information is <u>not</u> acceptable.

7.   *Deferred Compensation*

7.1.   Retirees may elect to roll a portion of the first payment of the RASL benefit into a State-sponsored deferred compensation account.

7.1.1.   The retiree <u>must</u> notify the Deferred Compensation Provider in writing of his intent to defer a portion of the first payment, using the Deferred Compensation Provider's RASL Deferral Notification Form.

7.1.2.   The Deferred Compensation Provider's RASL Deferral Notification Form may be found on the GAO website, RASL Information section, under the link https://gao.az.gov/payroll/rasl.

7.1.3.   The Deferral <u>must</u> be specified as a fixed amount, <u>not</u> as a percentage of the first payment.

7.1.4.   The Deferred Compensation Provider will notify the GAO in writing of the maximum amount that may be deferred. The Internal Revenue Service sets annual calendar year limits on the amount that may be contributed to a deferred compensation account.

7.2.   In order to allow for adequate processing time by the GAO, the retiree <u>must</u> submit Form GAO-SL-50 to his agency immediately following his separation from employment. The agency must then complete the employer portion of the form. The GAO <u>must</u> receive the completed form <u>no later than thirty (30) calendar days following the retiree's separation from State employment</u>. This will ensure that the deferral can be processed by the deferral deadline. The deferral deadline is the date by which the RASL program must transmit funds to the Deferred Compensation Provider. The deferral deadline is the later of 1) seventy-five (75) calendar days after the effective retirement date or 2) the last day of the calendar year in which the employee retires (not the year of termination).

Example: The deferred compensation deadline for a retiree with an effective retirement date of 12/15/20 is 2/28/21 (75 calendar days after the effective retirement date, which is later than the last day of the calendar year of retirement), whereas the deferred compensation deadline for a retiree with an effective retirement date of 1/1/20 is 12/31/20 (the last day of the calendar year in which the

employee retires, which is later than 75 calendar days after the effective retirement date).

7.2.1.   The retiree or his agency may submit the completed form (both the retiree and the employer sections) to the GAO, but <u>the responsibility for ensuring that the completed form is received by the GAO within thirty calendar (30) days following the date of termination from State service rests exclusively with the retiree</u>.

7.2.2.   The deferral cannot be for the entire amount of the first payment. In addition to the deferral, the payment is subject to Social Security and Medicare taxes that are calculated on the gross amount of the payment, and there must also be a payment issued to the retiree for a minimum of ten dollars ($10.00). Retirees should take this into consideration when determining the requested deferral amount. The GAO will reduce the deferral amount to cover Social Security and Medicare taxes and the ten dollars ($10.00) minimum payment and will notify the Deferred Compensation Provider of the adjusted deferral.

7.2.3.   Retirees who return to State employment may have the option of rolling any second and/or third payments of the RASL benefit into a State-sponsored deferred compensation account. Retirees must contact the GAO to determine if they are eligible for this option.

7.2.4.   Retirees who do not have a State-sponsored deferred compensation account already established with the Deferred Compensation Provider and elect the deferral option must enroll in a State-sponsored deferred compensation account prior to their date of separation from State employment.

8.   *Beneficiary*

8.1.   The employee may designate one (1) beneficiary for this Program. This beneficiary may be different from the beneficiaries designated for other purposes.

8.2.   Notification of changes (beneficiary, address, phone number, etc.) is the responsibility of the retiree and must be submitted to the GAO using Form GAO-SL-50.

8.3.   If a retiree has already received one or more of the RASL benefit payments and dies before receiving the total benefit value due, the retiree's named beneficiary shall receive the remaining balance due in a lump sum payment.

8.4.   If an active State employee with five hundred (500) or more unused sick leave hours is eligible for normal retirement, as specified under an Authorized State Retirement System in which he participates, and dies while employed by the State before retiring, a beneficiary is eligible to receive the decedent's total RASL benefit in a lump sum payment.

8.5.   The beneficiary <u>must</u> submit a copy of the death certificate and a notarized affidavit (Form GAO-36a, GAO-36b, or GAO-36c) to the GAO.   Unless an

exception is granted, the beneficiary is subject to the same due dates as those that were applicable to the retiree. The beneficiary can obtain blank affidavits from the decedent's prior agency HR office or from the GAO website.

9. *Scope of State Assistance to Prospective Program Participants*

9.1. State agencies employing prospective Program participants will provide the prospective participants Program information and certify as to the accuracy of certain required information as of the separation date. Required information includes the retiree's hourly rate of pay and accumulated sick leave balance at the date of separation from State employment, in addition to other information necessary to administer this Program.

9.2. The State and its employees cannot provide financial, legal or tax advice. The retiree or potential retiree is responsible for seeking advice from his personal financial, legal or tax advisor. State employees are limited to providing the retiree or potential retiree information concerning the specific policies, procedures and operations of the Program without offering counsel or advice.

10. *Retiree's Responsibilities*

10.1. An employee contemplating retirement is encouraged to provide his agency a notice of intent to separate, retire and participate in this Program.

10.2. The retiree <u>must</u> have an effective retirement date that is not later than thirty-one (31) calendar days after their separation from employment.

10.3. Unless rolling part of the first payment into deferred compensation (in which case a thirty (30) calendar day deadline applies), the retiree will need to ensure that a completed Form GAO-SL-50 (both the retiree and the employer portions) is received by the GAO within one hundred eighty (180) calendar days following his effective retirement date.

10.3.1. This form <u>must</u> be completed by <u>both</u> the retiree and his agency's HR (or payroll) office.

10.3.2. The agency <u>must</u> certify that the information on the form is correct and that the retiree is eligible for the RASL benefit.

10.3.3. The retiree may go online to the link <u>https://gao.az.gov/payroll/rasl</u> or to his agency's HR office to obtain the Form GAO-SL-50.

10.3.4. <u>Failure to file a completed Form GAO-SL-50 with the GAO within one hundred eighty (180) calendar days following his effective retirement date shall constitute abandonment and forfeiture of the retiree's right to the Program benefit</u>.

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10.3.5. The completed Form GAO-SL-50 may be submitted by either the retiree or his agency, but <u>the responsibility for claiming this benefit rests exclusively with the retiree (or his beneficiary)</u>.

10.4. The retiree <u>must</u> also fill out the RASL Checklist (retiree portion), which may be found under the link https://gao.az.gov/payroll/rasl.

10.4.1. There are separate checklists available for university and non-university employees.

10.4.2. Completing this checklist will help the retiree to ensure that all required information for the RASL Program has been completed and submitted.

10.4.3. Once the retiree portion of the checklist has been completed, the retiree <u>must</u> submit the checklist along with Form GAO-SL-50 to his agency.

10.5. If the retiree elects to roll a portion of the first payment of the RASL benefit into a State-sponsored deferred compensation account, he <u>must</u>:

10.5.1. Enroll in deferred compensation prior to separation from employment, and

10.5.2. Submit the RASL Deferral Notification Form directly to the state-sponsored deferred compensation provider, and

10.5.3. Ensure that a completed Form GAO-SL-50 is received by the GAO not later than thirty (30) calendar days after his separation from State employment.

10.6. Either the retiree or his agency may submit the completed Form GAO-SL-50 to the GAO, but <u>the responsibility rests exclusively with the retiree (or his beneficiary) to do so</u>.

11. State Agency Responsibilities

11.1. A State agency that employs persons who may be eligible to receive payments for accumulated sick leave upon retirement pursuant to A.R.S. § 38-615 shall contribute a pro rata share of the overall cost of the accumulated sick leave payments. The pro rata share shall be payable by payroll fund source and the resultant amount shall be transferred to the retiree accumulated sick leave fund. The pro rata share shall:

11.1.1. Be calculated from the total benefits eligible payroll,

11.1.2. Be established by the Director of the ADOA,

11.1.3. Be subject to review by the Joint Legislative Budget Committee, and

11.1.4. Not exceed .55% (.0055) of the total benefits eligible payroll.

11.2. Total benefit eligible payroll consists of gross wages paid from all funding sources including but not limited to the State General Fund, Federal monies, special revenue funds, intergovernmental revenue monies, trust funds and other payroll sources. Payment for the Program pro rata charge shall be submitted or transferred for all fund sources to the GAO RASL fund.

11.3. Each payroll system (including the HRIS and all other payroll systems) is responsible for transferring the required funding to the GAO for the Program on a payroll-by-payroll basis.

11.4. All payroll systems (not agencies) shall remit the pro rata RASL Program charge on a payroll-by-payroll basis by submitting an electronic transfer to the GAO. Any other type of payment needs prior written approval by the GAO.

11.5. All payroll systems other than the HRIS are required to submit sick leave liability information to the GAO.

11.5.1. This information generally includes, but is not limited to: employee name, employee number (i.e., EIN or SSN), sick leave hours balance, current hourly pay rate (excluding at-risk performance pay), employee hire date, birth date, gender, annual salary, termination date (if applicable) and notification as to whether the employee is or will become eligible for normal retirement during the next fiscal year.

11.5.2. Upon request, but not less frequently than at the end of each fiscal year, this information must be submitted to the GAO, using a medium and format approved by the GAO.

11.6. Agency Procedures for processing a RASL applicant:

11.6.1. The agency payroll office pays the retiree for all wages and unused and unforfeited annual, compensatory, recognition, old annual, holiday annual, or any other non-sick leave and decreases the appropriate leave balances to zero (0.0000).

11.6.2. All stipends and all deductions for retirement and all types of insurance must then be turned off in the HRIS. For assistance, contact the Arizona Department of Administration (ADOA) Benefit Services Division at BenefitsIssues@azdoa.gov.

11.6.2.1. The specific types of deductions that must be turned off are:

11.6.2.1.1.   Retirement (ASRS, CORP, PSPRS).

11.6.2.1.2.   Insurance: Life, LTD, STD, Medical, Dental, Vision.

11.6.2.2. Specific types of deductions that are NOT to be end-dated are:

11.6.2.2.1.   Transit (bus) card deductions.

11.6.2.2.2.   Deferred compensation.

11.6.2.2.3.   Taxes.

11.6.2.2.4.   Garnishments.

11.6.3. The agency HR office processes the employee's record as it would normally process a voluntary or involuntary termination or a death.

11.6.3.1. The agency must reclassify the retiree in HRIS by changing the status from an active pay status to a final pay status. Final pay statuses are: R2 (retiree final), T2 (termination final), or U2 (deceased final).

11.6.3.2. If the employee is separating from employment, retiring and then returning to work, the agency must first change the employee's status in HRIS to a final pay status and then subsequently process a re-hire in HRIS. For RASL purposes, it is important that HRIS records clearly show a separation date. Without a specific termination date in HRIS the applicant is not eligible for the RASL Program. Although Arizona law (A.R.S. § 38-764.I) allows certain ASRS members to retire and receive a pension without separation from employment, the RASL Program requires a separation with retirement.

11.6.4. The accuracy of certain information, including all accumulated sick leave balances and the corresponding hourly pay rate on the termination date, shall be certified by the State agency. Print screens from HRIS must be attached to the RASL application by the agency to verify the termination date, hourly rate of pay and sick leave balance. Non-HRIS agencies, such as universities, must attach appropriate print screens from their payroll systems.

11.6.5. The agency must submit Form GAO-SL-50, the appropriate checklist and print screens to the GAO. This documentation must be submitted to the GAO:

11.6.5.1. For those electing the deferred compensation option, within thirty (30) calendar days of the date of termination.

11.6.5.2. For those not electing the deferred compensation option, within one hundred eighty (180) calendar days of the effective date of retirement.

11.6.6. The retiree or agency may not submit an executed Form GAO-SL-50 to the GAO in advance or in anticipation of the employee's separation from employment or before all of the wages and non-sick leave have been paid.

11.6.7. To allow employee participation, each agency is responsible for disseminating the information regarding the policies and procedures governing this Program to its employees.

11.6.8. If a retiree in the RASL Program returns to State employment after he has retired with an Authorized State Retirement System, the agency's HR office must notify the RASL Program at the GAO immediately to ensure RASL payments are processed properly.

11.6.9. All correspondence and required notices related to the RASL Program shall be sent to:

> Arizona Department of Administration
> General Accounting Office
> Retiree Accumulated Sick Leave (RASL) Program
> 100 N. 15th Avenue, Suite 302
> Phoenix, AZ 85007

12. *Forms and Checklists*

12.1. All applicants of the Program must use the current Form GAO-SL-50. This form and its instructions may be found on the GAO website under the following link: http://www.gao.az.gov/rasl.

12.2. There are separate checklists for university and non-university employees; the RASL University Checklist and the RASL Non-University Checklist. The GAO requires that both retirees and agencies utilize a checklist to ensure that all required information for the Program has been provided. The university and non-university checklists may be found under the link: https://gao.az.gov/payroll/rasl.

12.3. The retiree must notify the Deferred Compensation Provider in writing of his intent to defer a portion of the first payment, using the RASL Deferral Notification Form. The form may be found on the GAO website under the following link: https://gao.az.gov/payroll/rasl.

12.4. The GAO has made available a Deferred Compensation/RASL Calculation Tool in Excel format to assist retirees and/or agencies in calculating RASL and deferred compensation amounts (if the retiree elects the deferred compensation option for the first payment.) The tool may be found on the GAO website under the following link: https://gao.az.gov/payroll/rasl.