
STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P.O. Box 942850
Sacramento, CA 94250-5878

DATE: October 11 , 2002

PERSONNEL LETTER # 02-025
(CIVIL SERVICE ONLY)

TO: All Agencies in the Uniform State Payroll System

FROM: RALPH ZENTNER, Assistant Chief
Personnel/Payroll Services DivisionRE: **LUMP SUM PAY DEFERRAL TO NEXT TAX YEAR AND DEFERRED COMPENSATION/TSA/PST DEDUCTIONS**

NOTE: This Personnel Letter supercedes Personnel Letter #01-019 dated November 16, 2001.

Labor Code sections 201, 202, and 219 dealing with the timely issuance of separation pay limited the state's ability to allow employees to defer lump sum separation pay into the next tax year and/or have deferred compensation (DC), tax sheltered annuity (TSA), or part-time seasonal temporary (PST) retirement plan deductions withheld from lump sum separation pay. Assembly Bill (AB)1684 amended the Labor Code sections to accommodate the aforementioned special handling of lump sum separation pay when requested by the employee. Refer to DPA PML 2002-065 for additional information.

Under AB1684, an employee must submit a written request at least five days prior to his/her date of separation to request special handling of his/her lump sum separation pay. All or part of the lump sum separation pay for either unused or accumulated vacation, annual leave, holiday leave, sick leave to which the employee is entitled due to disability retirement, or compensating time off due to previous overtime worked may be eligible for special processing.

DEFER LUMP SUM PAY TO THE NEXT TAX YEAR

That portion of the lump sum separation pay that extends beyond the November pay period in the year of separation may be deferred and issued in the following tax year. See the attached for PAR documentation instructions.

NOTE: If the employee requests DC, TSA, or PST deductions in addition to deferral to the next tax year, all the documentation must be submitted to PPSD for manual processing. See below for the deduction processing information.

WITHHOLD DC, TSA, OR PST DEDUCTIONS FROM LUMP SUM PAY

Effective immediately, use Item 999 and Line 10 on the separation PAR document to request DC, TSA or PST deductions from lump sum pay. The Form STD. 674 should only be used when correcting Item 999/Line 10 and no other items on the separation PAR need to be corrected.

The separation PAR with the DC, TSA or PST deduction request must be manually processed by the State Controller's Office, Personnel/Payroll Services Division (PPSD). To expedite processing, the PAR documentation may be FAXED to (916) 322-8137. Please call the Civil Service Personnel Operations Liaison Unit at (916) 322-6500 to alert them to watch for the FAX.

The following are the specific processing instructions to have DC, TSA or PST deductions from lump sum pay.

Eligibility: The employee must have a valid 401(k), 457, 403(b) account established prior to the separation or be currently covered under the PST retirement plan.

Documentation: Follow instructions in PAM section 3.200 for completion of the appropriate separation PAR transaction. In PAR Line 9, enter '999 See Remarks' and in the Line 10 Remarks area, enter all of the following.

1. 'Employee requests DC, TSA, or PST deductions from Lump Sum Pay.'
2. The deduction code(s) for the DC, TSA, or PST plan.
3. The pay periods from which the deductions are to be withheld.
4. The specific deduction amount to be withheld from each deduction code and pay period.

NOTE: For DC and TSA deductions, the total amount of all deductions withheld during the tax year cannot exceed specified plan limitations. Also, the total maximum deduction amount that can be withheld from each pay period must not exceed the lump sum payment's salary gross less social security/medicare taxes (if applicable) and mandatory deductions. See PPM Section H 012 for further information on the mandatory deductions applicable to lump sum payments. The Paycheck Calculator can be used to determine the maximum deduction amount that can be requested for each pay period. The calculator can be accessed at the following web site address: <http://sco.ca.gov.ppsd/empinfo/calc/paycalc.htm>. The web site can also be accessed via a link from the SCO homepage at <http://sco.ca.gov> (from the homepage, click on the 'State Employee' button then click on 'Paycheck Calculator Download').

For PST deductions, multiply the gross of each lump sum pay period pay from which the PST deduction is to be withheld by 7.5% to derive the PST deduction amount.

Examples for showing the deduction information on the PAR:

Deduction Code	Pay Period	Amount
029-401	07/02	\$400.00
029-401	08/02	\$400.00
029-401	09/02	\$400.00
029-401	10/02	\$400.00

or

Deduction Code	Pay Period	Amount
029-401	07/02	\$400.00
029-457	07/02	\$400.00
029-401	08/02	\$400.00
029-457	08/02	\$400.00

or

Deduction Code	Pay Period	Amount
029-457	09/02	\$300.00
029-401	09/02	\$400.00
029-401	10/02	\$400.00
029-401	11/02	\$400.00

Revisions to the PAM will be issued in the near future.

Questions regarding the above information can be directed to the following contacts:

AREA	CONTACT	TELEPHONE NO.
PAR Documentation Instructions	Civil Service Personnel Operations Liaison Unit	(916) 322-6500
Lump Sum Payments	Civil Service Telephone and/or Liaison Unit	(916) 323-3081

Deductions

AB 1684 and/or
the Labor Code
Provisions

Julie Chapman, DPA
Labor Relations Officer
or
Clarice Pace, DPA
Personnel Program
Technician

(916) 324-9420

(916) 924-0439

Attachment

RZ:PMAB:JLD

PAR DOCUMENT PROCESSING FOR LUMP SUM DEFERRAL

To defer part or all of the lump sum to the next tax year, it will be necessary to process two separation transactions (the original at the time of the separation and a correction to the original in January of the following year).

STEP 1.

Following instructions in PAM section 3.200 for completion of the appropriate separation PAR transaction with the following exceptions:

Items 620/625 - Enter the Lump Sum time to be paid in the current tax year. NOTE: If the effective date of separation is in November, only that portion of the lump time that extends beyond the November pay period in the year of separation may be deferred and issued in the following tax year.

Line 8 - Enter '877'. Then, line through the 877. (Item 877 is information only and cannot be keyed.)

Line 9 - Enter '999 see remarks', if applicable.

Line 10 Remarks - If Line 9 is completed per above, enter 'Employee requests DC/TSA/PST deductions from lump sum', the deduction code(s), pay period(s), and amount(s) (see above for specific examples).

NOTE: If Line 9 and Line 10 Remarks are completed per above, the separation PAR documentation must be submitted to PPSD for processing. See above for additional information.

STEP 2.

In January of the following year, process a correction to the separation transaction per PAM section 9.0 with the following exceptions:

Items 620/625 - Enter the total lump sum time due employee including the amount entered on the original separation transaction.

Line 9 - Enter '999 see remarks', if applicable.

Line 10 Remarks - If Line 9 is completed per above, enter 'Employee requests DC/TSA/PST deductions from lump sum', the deduction code(s), pay period(s), and amount(s) (see above for specific examples).

NOTE: If Line 9 and Line 10 Remarks are completed per above, the correcting separation PAR documentation must be submitted to PPSD for processing. PPSD must receive the document by January 15th to ensure compliance with the Labor Code provisions.