

Terminal Leave Communication to All Employees

Effective July 1, 2016, UW System implemented a change in paying and accounting for lump sum terminal/banked leave (formerly ALRA-annual leave reserve account, or sabbatical). A new methodology was developed that will assess a small percentage against each payroll, depositing the funds into one central, dedicated campus account. When someone retires or terminates, the lump sum payout will be charged against the central, dedicated campus account. Through the payroll assessment, the central, dedicated campus account will house the lump sum funds until the unused leave benefits are paid out. This model is designed to break even each year, and the assessed percentage rate will be recalculated annually.

Current Method

Vacation Leave Benefit

Eligible employees are granted vacation according to their appointment type and/or years of service in an annual vacation allotment. If vacation is not used within the year it is earned, it may be banked or carried over into the following year. If vacation is not used or banked by the end of the carryover period, it is lost.

Eligible employees can bank (save) unused vacation for use at a later date. Banked leave does not expire and accumulates from year to year without limit. Banked leave can be used like any other paid leave.

At retirement or termination of employment, any remaining unused vacation or banked leave can be paid out as a lump sum on the final check, or used to extend time on payroll (with supervisor approval). The last employing department is responsible for these payouts.

In addition, when an employee changes positions, the hiring department has discretion on whether they will accept the employees' banked leave balances or require that the balances be paid out by the previous employing department.

Issues with Current Method

- Employees having large, accumulated balances can inhibit movement of employees across units due to the reluctance to hire employees with large balances that may need to be funded at termination.
- Many units lack resources/flexibility necessary for substantial payouts.
- When funding is through a grant or sponsored project, the current method is compliant with the Uniform Guidance. However, requiring short-term funds to pay for these long-term liabilities is arguably not an appropriate use of funds.
- The University is currently treating payments for unused leave on a cash basis. However, per Generally Accepted Accounting Principles (GAAP), leave benefits should be recorded as a liability at the time the benefit is earned. The University financial report identifies a total compensated absences liability.

New Method

Vacation Leave Benefit

Effective July 1, 2016, eligible employees are still granted vacation leave benefits as outlined in the current method. Additionally, eligible employees can still bank (save) unused leave for use at a later date.

Accounting – Terminal Leave Allocation Process

The University will charge a leave benefit at the time annual leave is earned and record the leave benefit as a liability. The assessed percentage rate will be calculated on the basis of a three-year average of lump sum payouts, and will be recalculated annually. Any balance remaining in the central, dedicated campus account at fiscal-year-end will be factored into the next calculation, decreasing or increasing the percentage as applicable.

The assessed percentage rate will be charged with each payroll processed. For FY17, the rates are 0.XXX% for unclassified salaries and 0.XXX% for University Staff (formerly classified) salaries. General Purpose Revenue (GPR) accounts will be funded from one central account, while all other funding strings associated with salary payments will be respectively charged. Funds generated by the terminal leave assessment will then be pooled into the central, dedicated campus account until lump sum leave benefits are paid out.

- **Grants and sponsored projects have the terminal leave assessment calculated into the fringe rate.** The existing fringe allocation will charge the sponsored projects and credit the central, dedicated campus account.
- All other funds will be assessed a small percentage through the new monthly Terminal Leave Allocation process. The allocation process will charge non-sponsored funding on a new account code, 3960 Transfer – Term. Leave Allocated, and transfer the funds to the terminal leave central, dedicated campus account.

Lump Sum vs. Extended Time on Payroll

This new terminal leave allocation methodology and subsequent terminal leave central, dedicated campus account only cover lump sum terminal leave payments when an employee does not utilize leave to extend their employment period. **If a supervisor agrees that the employee can extend their time on payroll by utilizing any banked leave after their last day on campus, the employee's departmental unit is responsible for any lump sum payment.**

- Lump sum payouts are charged for Social Security and Medicare taxes.
- Extended time on payroll includes all fringe benefit components, e.g. health insurance, life insurance, retirement contributions, Social Security taxes, Medicare, etc.

If you have concerns or questions about this UW System process contact the Office of Human Resources at hroffice@uwosh.edu or 920-424-1166.