Lump Sum Leave Payouts for Terminated Employees

Terminal Leave - Definition

- **Faculty/academic staff** who have completed 10 or more fiscal years of continuous service may convert up to 40 hours of unused leave to an "Annual Leave Reserve Account (ALRA)" at the end of the fiscal year.

- **Classified/University staff**, dependent on their number of years of service, may transfer a certain amount of unused annual leave to "sabbatical" or "banked" leave at the end of the calendar year.

- The banked leave does not expire and accumulates from year to year.

- At the time an employee retires or terminates employment, he or she may elect to receive a lump sum payment of the ALRA or sabbatical account balance.

Terminal Leave

- Effective July 1, 2016, UW System is implementing a change in accounting for and paying lump sum terminal leave.
- Moving away from Cash Basis to developing a Pool for lump sum payments
- Creation of Terminal Leave Allocation/Pool Account
  - Terminal Leave rate will be charged on all funding strings associated with salary payments
    - Excluded are stand alone GPR and the related PR funds:
      - Wisconsin State Laboratory of Hygiene (WSLH) - Funds 117, 127, 130
      - Wisconsin Veterinary Diagnostic Lab (WVDL) - Funds 126, 165, 166
  - Pooled in a newly formed campus-wide account
  - Pooled account will house lump sum funds until the unused leave benefits are paid out

Terminal Leave - Current

Currently, the University treats payments for unused leave on a cash accounting basis.

Issues with our Current Method:

- Employees having large accumulated balances can inhibit movement of the employees across units due to reluctance to hire employees with large balances they may need to fund at termination.
- Many units lack resources/flexibility necessary for substantial payouts:
    - When funding is General Purpose Revenue (GPR), the source is certainly allowable, but having enough unused GPR funds to cover these payouts is challenging for most units.
- When funding is on 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 the funds.
- Per GAAP accounting rules, leave benefits should be recorded as a liability at the time the benefit is earned.

Terminal Leave - Future

Effective July 1, 2016, the University will charge a leave benefit rate at the time annual leave is earned and record the leave benefits as a liability.

- Rate will be calculated based on a three year average of lump sum payouts.
  - FY 2017 Rate based on FY 2013-2015
    - Academic - 0.26%
    - University Staff - 0.33%
- Any positive or negative recovery would be taken into account in the development of future rates.
- The rate will be charged monthly on all funding strings associated with salary payments (excluding WSLH and WVDL) and pooled in a newly formed campus-wide project, 136-980100-1-AAB1163.
- The pool will house the funds until unused lump sum leave benefits are paid out.
- New accounts have been created for the payments – only to be used on AAB1163.
  - 1009 – Faculty – Terminal Leave – Lump Sum
  - 1056 – Academic Staff – Terminal Leave – Lump Sum
  - 1545 – University Staff – Terminal Leave – Lump Sum

Terminal Leave - Future

Terminal Leave Allocation for All Funds

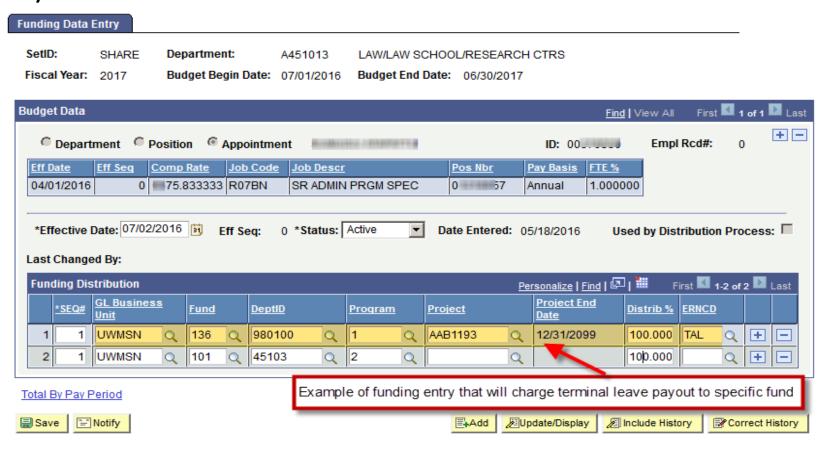**Sponsored Projects Funds – 133,135,142,144,161,233**

- Terminal leave rate will be included in the fringe rate.

- Existing fringe allocation process will charge sponsored projects on account 1975-1979 and credit the Fringe Pool (1330001, 1440001, etc.)

- 2nd allocation process will transfer terminal leave % from Fringe Pool to Terminal Leave Pool 136-980100-1-AAB1163

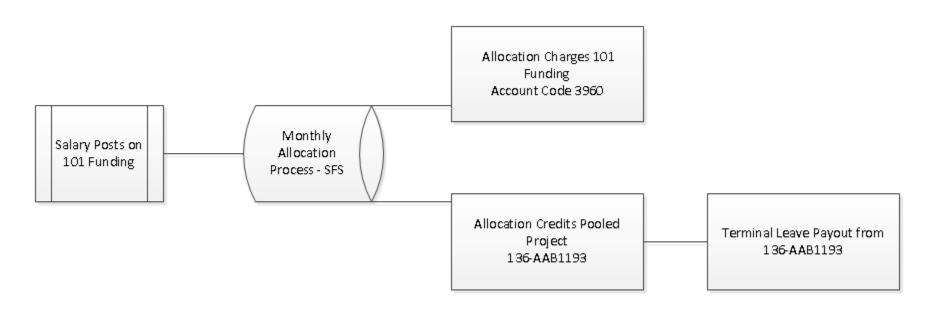**All other funds (excluding 117, 126, 127, 130, 165, 166)**

- New monthly charge for Terminal Leave Allocation

- Allocation will charge non-sponsored funding on new account 3960 (Transfers – Term Leave Allocated) and credit the Terminal Leave Pool 136-980100-1-AAB1163

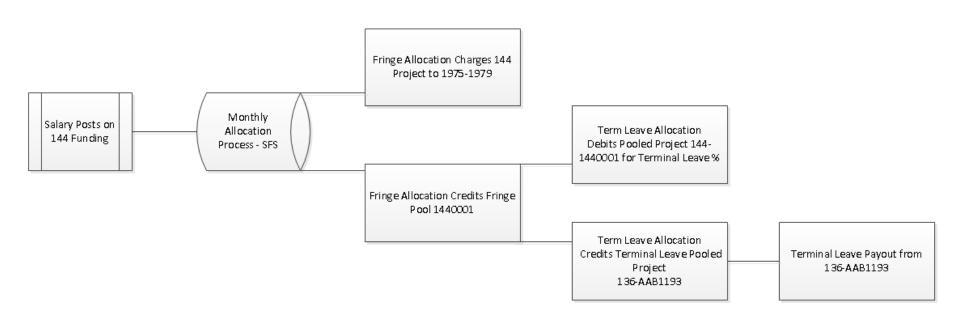# Funding Lump Sum ALRA and Sabbatical Terminal Leave Payouts

- KB 18173 (https://kb.wisc.edu/hrs/page.php?id=18173) provides detailed information on funding entry to charge ALRA and Sabbatical terminal leave payouts to a specific fund. Sample entry:

Terminal Leave Allocation
Flow Chart – Non-Sponsored

Terminal Leave Allocation Flow Chart – Sponsored

Terminal Leave - FAQs

- Lump Sum vs. Extended Time on Payroll?
  - Policy approved by CBO's covers lump sum payments only.
  - Per UWMSN Vacation Policy – employees get to choose lump sum or extension on payroll while using up ALRA/sabbatical.
    - Policy: https://kb.wisc.edu/ohr/policies/page.php?id=53409
    - Section VI.a.

An employee who terminates employment or retires is eligible to receive a lump-sum payment for any remaining vacation and/or banked vacation hours. If the termination is not the result of layoff or termination for cause, UW–Madison will allow employees to extend their termination date beyond the last day worked by the amount of their vacation and/or banked vacation hours. Employees may also elect to use some leave to remain on payroll and receive the rest as a lump sum payment.

Terminal Leave Implementation Strategy

- Department of Health & Human Services
  - Notified by RSP in letter dated November 30, 2015
- System-wide policy development in process
- Service Center
  - Configuration for payouts
  - HRS KB documents
  - Future affinity group calls
  - Communication and instruction for HR staff

Terminal Leave Questions Received

- Is this intended to pool for all terminal leave?
  - No, only lump sum payouts. Based on most recent three years 0.26% for academic personnel and 0.33% for university staff.
- Will this change the way campus units report accrued liabilities for terminal leave, for example auxiliary units?
    - Terminal leave rate intended to cover one year of lump sum payouts
    - Liability should remain

Other Questions?