Banked Leave Payout Background Information

Effective July 1, 2016, UW System is implementing a change in accounting for and paying lump sum terminal leave. A new methodology has been developed that will assess a small percentage from each department’s funding/budget account during the payroll process, depositing the funds into a central campus pool account. When someone retires or terminates, the lump sum payout for banked paid leave (formerly ALRA, annual leave reserve account, or sabbatical) will be charged against the central campus pool account. Through the payroll assessment, this central campus pool account will house the lump sum funds until the unused leave benefits are paid out. This model is designed to breakeven each year, and the assessed percentage 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 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 pay outs.

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 from the previous employing department.

Issues with Current Method

- Employees having large accumulated balances can inhibit movement of the 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 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 funds.
- The University is currently treating payments for unused leave on a cash basis; however, per GAAP accounting rules, 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.
Future 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 vacation leave for use at a later date. However, at retirement or termination of employment, the employee’s decision to extend their termination is limited to up to 90 calendar days beyond their last day worked. Any remaining banked leave will be paid out as a lump sum.

Accounting

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 will be calculated on a three-year average of lump sum payouts, and will be recalculated annually. Any balance remaining in the central campus pool account at year-end will be factored into the next calculation, decreasing/increasing the percentage, as applicable.

The assessed percentage will be charged with each payroll processed. GPR accounts will be funded from one central account, while all other funding strings associated with salary payments will be respectively charged. Funds will then be pooled into the central 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 fringe pool. A second allocation will transfer the terminal leave assessment from the fringe pool to the terminal leave central campus pool 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 campus pool account.

Lump Sum vs. Extended Time on Payroll

This new terminal leave allocation methodology and subsequent terminal leave central campus pool account only covers lump sum payments (as approved by UW System Chief Business Officers). If an employee chooses to extend their time on payroll up to the 90 calendar days allowed, then the employee payroll would remain the responsibility of the departmental budget.

- Lump sum payouts are taxed accordingly
- Extended time on payroll includes all fringe benefit components, including: health, life, retirement, Social Security, Medicare, etc.