

## **AAM 360. DEDUCTIONS, CONTRIBUTIONS, AND EMPLOYER COSTS**

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## **AAM 360.010 Introduction**

Employees' wages are subject to pretax mandatory and voluntary contributions, federal taxes, and post tax mandatory and voluntary deductions. Agencies also pay benefit costs and the employer portion of Medicare taxes, referred to as employer charges.

Mandatory pretax deductions include contributions to state retirement systems and the Supplemental Benefits System (SBS). These contributions are required by Alaska Statute. Voluntary pretax deductions include voluntary SBS premium payments for additional life, disability, and health insurance, dependent care, and voluntary contributions to one of two programs for deferring compensation. Voluntary pretax programs are authorized by Alaska Statute.

Federal income and Medicare taxes are mandatory taxes required by federal law. Federal income taxes are calculated on employee gross wages less pretax deductions. Medicare taxes are calculated on total gross wages.

Voluntary post tax deductions are subtracted from an employee's net pay and paid to third parties as authorized by the employee. Mandatory post tax deductions are deductions imposed by a third party. Examples include deductions required by judgments, garnishments, and tax levy. Mandatory deductions do not require an employee's authorization.

Agencies pay the cost of employee benefits such as workers' compensation insurance premiums, unemployment taxes, health insurance premiums, legal trust, and the employer portion of Medicare taxes. Employer charges are mandated by collective bargaining contracts, Alaska Statute, and federal law.

## **AAM 360.020 Priority and Source**

Pretax deductions are table-derived and have preassigned priority numbers. Priority numbers determine the order in which pretax deductions are subtracted from gross pay. Post tax deductions are also table-derived and have preassigned priority numbers. Priority numbers ensure deductions process in the order required by state and federal law.

Alaska Statutes authorize benefits for most employees through two joint contributory programs. Employees and employers make contributions to state retirement systems and the Supplemental Benefits System.

The Internal Revenue Code establishes requirements for federal income and Medicare tax withholdings.

Employee mandatory deductions and employer charges are established as required by Alaska Statutes, collective bargaining agreements, and other legal agreements. Employee voluntary pretax and post tax deductions are established as additional benefits to, or for the convenience of the employee and must be authorized by the employee.

## **AAM 360.030 Federal Income Tax**

The Division of Finance is responsible for proper withholding, payment, and reporting of federal taxes. The division must account for and report compensation and tax information to federal agencies.

The Internal Revenue Code (IRC) requires employers to withhold federal income taxes from employees' taxable gross wages. The Internal Revenue Service (IRS) determines what employee wages and benefits are defined as compensation subject to federal income tax withholding. Taxable compensation includes, but is not limited to, gross wages from salaries, exception pay, taxable portions of travel reimbursements, and noncash legal trust benefits. The division is responsible for reviewing the IRC and implementing tax code revisions through procedural changes in agencies and system changes in the payroll system.

## **AAM 360.040 Federal Income Tax Form W-4 Withholding Certificate**

The IRS uses the Social Security number as a taxpayer identification number for reportable income. Every employee is required to have a valid Social Security number. Agencies are required to verify Social Security numbers listed on initial appointment papers from original Social Security cards. If an individual does not have a Social Security card, the agency must provide the individual with an Application for Social Security

Number, Form SS-5, and ensure the form is completed. The agency must send the completed application to the nearest Social Security district office. Refer to [AAM 200.060](#) Employee Social Security Number.

The amount of tax withheld from an employee's wages is based on the marital status and number of allowances claimed on the employee's W-4, employee's Withholding Allowance Certificate. This form is the source document for federal tax withholding information and each employee is required to complete the form when hired. The exemption certificate allows an employee to file as single, married, or married filing at the higher single rate and to indicate the number of allowances the employee wishes to claim. An amount of additional (optional) taxes to be withheld from wages may also be indicated on the form. Employees may also use this form to file exemption from federal tax withholding.

When initially enrolled in the payroll system, an employee's federal withholding taxes will default to S/zero (a single individual with zero withholding allowances) and Medicare taxes default to "yes" to ensure these taxes are withheld. Authorized agencies, or the Division of Finance on the behalf of agencies, must enter W-4 information in the payroll system to ensure employees are set up with appropriate withholding information.

Agencies are required to retain originals or copies of W-4 forms for their employees in employee files. The Division of Finance is responsible for forwarding to the IRS all W-4 forms for employees claiming exemption from federal withholding taxes and for employees claiming more than ten withholding allowances. Agencies are required to submit W-4 forms with these exceptions to the division.

#### **AAM 360.050 State Income Tax**

With enactment of [AS 43.20.011](#) in 1980, the legislature repealed the state income tax on individuals.

#### **AAM 360.060 Social Security Taxes**

With enactment of [AS 39.30.150 - 180](#) Supplemental Employee Benefits on Withdrawal from Social Security, the State, on January 1, 1980, opted out of the federal Social Security system.

#### **AAM 360.070 Medicare Taxes**

Employees hired on or after April 1, 1986, are subject to the Medicare (hospital insurance) portions of Social Security taxes. The State and each

employee pay 1.45 percent of the employee's gross wages for Medicare taxes. Temporary employees hired to deal with natural disasters, such as employees who are members of the National Guard or Department of Natural Resources emergency firefighters, are exempt from Medicare coverage.

When a laid off employee not previously subject to Medicare taxes returns to active service, the employee is subject to Medicare taxes if the employment relationship terminated during the period of layoff. An employment relationship terminates when employer paid health insurance coverage ceases.

### **AAM 360.080 Supplemental Benefits System (SBS)**

The Supplemental Benefit Annuity Plan was authorized by [AS 39.30.150 - 180](#) and took effect January 1, 1980. With enactment of this statute, the State opted out of the federal Social Security system. SBS is a defined contribution plan, meaning the benefit received is based on contributions plus interest accrued, minus administrative fees. The plan is administered by the Division of Retirement and Benefits. The Alaska State Pension Investment Board is the fiduciary of the receipts.

The State and each eligible employee are required to contribute 6.13 percent of the employee's gross wages, for combined contributions of 12.26 percent, to the employee's SBS account. Contributions are calculated on employee gross wages up to the taxable wage base in effect in the Social Security system for the current year. Employee contributions are pretax deductions not subject to federal income tax withholding.

The Division of Finance transfers SBS employee and employer contributions to the Division of Retirement and Benefits following each production payroll. The Division of Retirement and Benefits maintains the SBS employees' individual annuity accounts.

### **AAM 360.090 Other Benefits - Supplemental Benefits System**

As authorized in [AS 39.30.160](#), the Department of Administration, in accordance with policies prescribed by regulations of the Public Employees Retirement Board, provides voluntary benefit options to employees for whom benefit accounts are established. These voluntary benefit options are pretax deductions and include:

1. Supplemental health benefits.
2. Supplemental life/death benefits.

3. Supplemental disability benefits.
4. Supplemental dependent care benefits.

### **AAM 360.100 PERS - Mandatory Contributions**

Membership in the Public Employees' Retirement System (PERS) is mandatory for all permanent full-time employees and for part-time employees who work a minimum of 15 hours per week and are not covered under another retirement system. PERS is authorized by [AS 39.35.010 - 690](#) to provide for payment of retirement, disability, and death benefits to employees, and was established to encourage qualified employees to enter or remain in state service. There are six different employee occupational categories under PERS: firefighters; elected officials; peace officers; masters, mates, and pilots; Inlandboatmen's Union employees, and all other employees. The method for computing future benefits received by these employees is specified in legislation authorizing the benefit.

PERS is a defined benefit, agent-multiple employer system. [AS 39.35.170](#) requires an employee to make contributions to the plan by payroll deduction. The employee's contribution is a pretax deduction. The State contributes employer contributions to PERS as required by law in [AS 39.35.250 - 290](#). The Public Employees' Retirement Board establishes the State's contribution rate annually based on an actuarial valuation of the system that determines the payments necessary to fund the State's future liability for benefit payments to employees.

### **AAM 360.110 PERS - Voluntary Contributions**

An active state employee who is an active PERS member may voluntarily contribute to the employee's voluntary savings account. Voluntary contributions are post tax deductions from employee wages. The State does not match voluntary contributions. Total annual contributions may not exceed five percent of an employee's compensation for the year as provided in [AS 39.35.180](#). The Division of Retirement and Benefits is responsible for monitoring total contributions for a year. Employees who want a refund of their voluntary contributions should contact the Division of Retirement and Benefits.

### **AAM 360.120 PERS - Retirement Indebtedness**

An employee, who separates from state service, withdraws the PERS contribution account balance, and is subsequently reemployed in a PERS-covered position, may repay the refund to again receive credit for the

related service. An indebtedness account must be established by the Division of Retirement and Benefits before an employee may begin making repayments. The indebtedness is equal to the refunded amount plus interest, at the rate prescribed by law, from the date of the refund or from the date of rehire for refunds prior to July 1, 1977. Interest will continue to accrue on the indebtedness until it is paid in full or the employee retires, whichever occurs first. Reinstatement contributions may be paid directly to the Division of Retirement and Benefits, or deductions to repay retirement indebtedness may be established in the payroll system by an employee's agency.

An indebtedness may also be established for an employee who wishes to claim military or temporary service, or workers' compensation LWOP time in PERS. Employees wishing to make such a claim should contact the Division of Retirement and Benefits for applications. Once an indebtedness is established, payments may be made as described above.

### **AAM 360.130 Teachers' Retirement System Mandatory Contributions**

Teachers' Retirement System (TRS) membership is required for all teachers employed by the State who work a minimum of 15 hours a week, except those excluded from membership by the provisions of [AS 14.25.040](#). TRS is a defined benefit, cost-sharing, multiple-employer plan. The method for computing future benefits received by employees is specified in legislation authorizing the benefit.

A TRS member is required to contribute a percentage of base salary to the plan as provided in [AS 14.25.050](#). Base salary is defined as remuneration for professional services rendered. The employee's contribution is a pretax deduction. The State makes employer contributions to TRS as required by [AS 14.25.070](#).

### **AAM 360.140 Teachers' Retirement System Supplemental Contributions**

A teacher who first entered TRS prior to July 1, 1982, is eligible to make supplemental contributions of 1 percent of the teacher's base salary. The teacher must elect to do so in writing within 90 days of the most recent hire, if at least 12 months have lapsed since the teacher was an active member, or within 90 days of marriage, or the birth or adoption of a child. Supplemental contributions make the spouse or child eligible for a spouse's or survivor's allowance. Once supplemental contributions are elected, they are required during any period of active TRS participation unless the teacher chooses to waive continued participation. The employee applies for a waiver on a form provided by the Division of Retirement and Benefits. TRS supplemental contributions are not refundable and do not accrue interest. Supplemental contributions are not matched by the State.

Conditional provisions for supplemental contributions are provided in [AS 14.25.055](#).

**AAM 360.150 Teachers' Retirement System Arrearage Contributions**

A teacher who has creditable teaching service in another state, with the Bureau of Indian Affairs, or in the military service may purchase TRS service credit through contributions to TRS. The total contribution is 7 percent of the base salary paid at the time the teacher was first employed in membership service, multiplied by the total number of years of other service (not to exceed ten years) plus interest. An indebtedness account must be established before payments can be made. An arrearage contribution may be paid by payroll deductions from the teacher's salary or made directly to the Division of Retirement and Benefits. Arrearage and interest payments made by teachers are not matched by the State. Specific provisions for arrearage payments are in [AS 14.25.060](#).

**AAM 360.160 TRS Reinstatement Indebtedness Contributions**

A teacher, who separates from TRS service, withdraws the TRS contribution account balance, and is subsequently reemployed in a TRS-covered position, may repay the refund to again receive credit for the related service. An indebtedness account must be established by the Division of Retirement and Benefits before repayments can begin. The indebtedness is equal to the refunded amount plus interest at the rate prescribed by law, from the date of the refund or from the date of rehire for refunds prior to July 1, 1977. Interest will continue to accrue on the indebtedness until it is paid in full or the employee retires, whichever occurs first. Reinstatement contributions may be paid directly to the Division of Retirement and Benefits or deductions to repay retirement indebtedness may be established in the payroll system by an employee's agency.

**AAM 360.170 TRS Retroactive Indebtedness Contributions**

A teacher previously excluded from TRS may become eligible to participate in TRS through a legislative change. When this occurs, [AS 14.25.061](#) allows the member to receive credit for retroactive membership service by making indebtedness contributions to the system. An indebtedness account must be established by the Division of Retirement and Benefits before repayments can begin. Interest will continue to accrue on the indebtedness until it is paid in full or the employee retires, whichever occurs first. Retroactive indebtedness contributions may be paid directly to the Division of Retirement and



Benefits or deductions to pay the indebtedness may be established in the payroll system by an employee's agency.

### **AAM 360.180 Elected Public Officers and Judicial Retirement Systems**

The legislature established the Judicial Retirement System (JRS) and the Elected Public Officers Retirement System (EPORS) to provide retirement, disability, and death benefits for elected and judicial officials. Both retirement systems are defined benefit, single employer plans. The member's contribution is a post tax contribution set by law.

[AS 22.25.010 - 090](#) provides for creation and administration of JRS. All judges and justices initially appointed after July 1, 1978, are contributing members of JRS until they accrue 15 years of service, at which point employee contributions are no longer required.

EPORS was established by [AS 39.37.010 - 150](#). However, the legislation submitted to voters by referendum was rejected. In *State vs. Allen*, Supreme Court Opinion No. 2278, 625 P2d 844 (1981), the supreme court held that all elected officials participating in EPORS at the time the repeal became effective, October 14, 1976, were entitled to benefits provided by the system upon retirement. As a result of the court ruling, EPORS membership is limited to all legislators, the governor, and the lieutenant governor who were in office on October 14, 1976. The ruling further provided that once an individual is a member of this retirement system, the individual cannot change to another retirement system or plan regardless of changes in status or position. [AS 39.35.389](#) provides for alternate benefits for an EPORS member or the surviving spouse.

### **AAM 360.190 Mid-Pay Period Transfers and Retirement Contributions**

The payroll system makes contributions to only one retirement plan or system within a pay period for an employee. When an employee transfers from a position in one retirement system or plan to a position in a different system or plan in the middle of a pay period, retirement contributions for the pay period will be inaccurate. It is the responsibility of the transferring and employing agencies to document employee transfers that occur in the middle of a pay period and that involve different retirement systems or plans. This information is forwarded to the Division of Finance. The division processes adjustments to correct contributions to retirement plans or systems for the period in which the transfer occurred.

Pursuant to [AS 39.30.090](#), the Department of Administration is authorized to obtain a policy or policies of group insurance to provide life insurance, accidental death and dismemberment insurance, weekly indemnity insurance, hospital and surgical expense insurances, dental expense insurance, and audiovisual insurance to each eligible employee, the employee's spouse, and unmarried, dependent children of the employee. These benefits are provided to employees who serve in permanent or long-term nonpermanent, full-time or part-time employment with the State for 30 consecutive calendar days. Employees who work a minimum of 15 hours a week and less than 30 hours a week are eligible for health insurance benefits by paying one-half the health and life premium rate for a full-time employee. Employees who work 30 hours a week or more are eligible for employer paid health insurance coverage. Elected officials are eligible for health insurance upon taking the oath of office.

The Division of Finance provides a file of active enrollees in the group insurance program, reports eligibility information of enrollees to the Division of Retirement and Benefits, and pays monthly premiums to the carrier.

Agencies must ensure employees complete appropriate group health plan enrollment and change forms, and basic and optional life insurance enrollment and change forms. Agencies must closely monitor health insurance eligibility of employees and make changes to eligibility information reported to the carrier.

Agencies must be aware of the following changes in employee status that result in changes to eligibility for health insurance and must take appropriate action to ensure health insurance is handled correctly:

1. **A full-time employee is appointed to a part-time position working less than 30 hours a week.** The employee may elect to pay half the premium for health and life insurance the first full month in part-time status. If the premium is not paid, the employee is not eligible for coverage.
2. **A part-time employee is appointed to a full-time position.** The employee no longer pays half the premium for health insurance beginning the first full month in full-time status.
3. **An employee is placed on leave-without-pay (LWOP) or is laid off.** The employee is no longer eligible for health insurance the first full month of LWOP or a layoff unless otherwise provided in a collective bargaining agreement, family leave, or workers' compensation policy. The employee may elect to purchase health insurance while laid off.

4. **An employee returns from LWOP or layoff.** The employee is eligible for health insurance upon returning to work.
5. **An employee separates from a health insurance eligible position before the employee has reached the 30-day eligibility date.** The employee's health insurance eligibility must be changed.

<b>AAM 360.210 IRS Tax Levies and Payroll Deduction Agreements</b>
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The Internal Revenue Service (IRS) issues a Notice of Levy on Wages, Salary, and other Income, Form 668-W(c), against an individual when other tax liability collection methods are not successful. Agencies should not accept a levy, garnishment, or judgment against an employee, but should refer the server to the Division of Finance. Any legal document that requires the State to withhold a portion of an employee's salary must be received by the Division of Finance. If a notice of levy is mistakenly served to and accepted by an agency, the agency should immediately forward the notice to the Division of Finance.

A valid notice of levy must be served in person by a properly identified employee of the IRS or through the mail. The notice indicates that all monies due an employee less a basic exemption is to be levied from the date the notice is served until the tax liability is liquidated or released by the IRS. The employee's net pay may not exceed the amount exempt from the levy unless additional exemptions requested by the employee are in compliance with IRS guidelines. The Division of Finance is responsible for determining when additional exemptions that are requested by an employee may be withheld from levied wages. The division is also responsible for setting up and maintaining payroll deductions for levies.

The Division of Finance acknowledges service of a notice of levy when it forwards funds withheld from the employee to the IRS. The division also notifies the IRS when it receives a notice of levy for an individual who is not an employee of the State.

The IRS may enter into an agreement with an employee for payment of delinquent taxes. The agreement is set forth on Form 2159, Payroll Deduction Agreement. Form 2159 indicates an amount in addition to regular tax withholdings that will be deducted from the employee's salary until the total tax owed has been paid. If Form 2159 is received by an agency, it should be immediately forwarded to the Division of Finance for processing.

## **AAM 360.220 Judgments and Garnishments**

Under the Consumer Credit Protection Act of 1968, PL 90-321, no more than 25 percent of an individual's disposable earnings may be garnished. Disposable earnings are earnings net of federal withholding and Medicare taxes, contributions to Supplemental Benefits and retirement, and other deductions required by law. The 25 percent restriction does not apply to the following types of judgments:

1. A court order for the support of any person.
2. A bankruptcy court order.
3. An amount owing for any state or federal tax.

Other judgments that require the State to withhold amounts from wages are refused by the Division of Finance if not properly executed or are referred to the attorney general on a case by case basis. Judgments issued by Alaska courts are considered properly executed. The division does not accept judgments issued from courts outside Alaska.

As a general rule, judgments and garnishments cannot be placed against wages of seamen employed by the Alaska Marine Highway System. The right of seamen to collect their wages is protected by the federal Jones Act. Wages of seamen, however, may be subject to levies for federal taxes and garnishments for child support.

## **AAM 360.230 Child Support**

The State must comply with all child support deduction orders. Child support deductions may be initiated by an employee, ordered by a child support enforcement agency, or ordered by a court. Employee-requested deductions may be stopped only by employee request. Court or child support enforcement agency ordered deductions may be stopped only by an order from the court or the child support enforcement agency. The Division of Finance is responsible for establishing and maintaining child support deductions. All requests or orders for child support should be forwarded to the Division of Finance.

## **AAM 360.240 Deferred Compensation**

The Deferred Compensation program is authorized by [AS 39.45.010](#). Administration of the program is under the direction of the Department of Administration as authorized in [AS 39.45.020](#).

Federal tax laws enable an employee to defer taxes on a portion of current earnings by deferring receipt of a portion of the employee's current wages. The employee is not subject to federal income taxes on deferred wages until the wages are received.

The Division of Retirement and Benefits establishes and maintains all deferred compensation records. A deferred compensation deduction may not be taken from an employee's final pay unless authorization is received from the Division of Retirement and Benefits.

**AAM 360.250 Not Used (10-10)**

**AAM 360.260 Business Expense Recovery**

Refer to [AAM 320](#) Tax Reportable Travel for information about employee business expense recoveries.

**AAM 360.270 Share Donations**

Employees may make charitable contributions to SHARE by payroll deduction. SHARE supports a number of nonprofit health and human services programs within Alaska. Employees may direct their contributions to the organization of their choice or may contribute an amount to SHARE without designating the recipient. SHARE payroll deductions are set up the 12/16-31 pay period each year. Several restrictions apply to SHARE deductions:

1. The minimum contribution amount is \$1.00 a pay period.
2. All deductions have a high limit, an end date, and are established for a time period within a calendar year.
3. SHARE deductions start when a deduction record is set up in the payroll system. Agencies must not make retroactive adjustments for SHARE if forms are received late. Forms authorizing deductions should be processed as soon as possible after they are received.
4. A SHARE deduction is not taken on lump sum pay for terminal leave.
5. The State does not give employees account statements of total charitable deductions at year-end. Employees who ask for such information are referred to the charitable organization.

6. Documents or forms authorizing or canceling payroll deductions for SHARE are recorded in the payroll system by agency human resources offices. Agencies are responsible for verifying the Social Security number, determining the eligibility of the employee to make a contribution by payroll deduction, and reviewing the form for accuracy and completeness prior to processing.

#### **AAM 360.280 Credit Union Flat Amount Deductions**

The State allows employees to authorize deductions from wages to be paid to credit unions in Alaska.

The Division of Finance is responsible for establishing all credit union deductions upon receipt of credit union forms properly signed by the employee or other authorization written and signed by the employee. Discontinuation or change requests must be authorized by the employee in writing. The Division of Finance stops deductions when an employee separates.

#### **AAM 360.290 Direct Deposit**

Electronic direct deposit allows an employee to deposit net pay to a designated financial institution known as the Receiving Depository Financial Institution (RDFI) by means of an electronic funds transfer. The Division of Finance encourages agencies to promote direct deposit to their employees.

The Division of Finance is responsible for establishing and maintaining direct deposit records for all employees. Problems related to direct deposit of a payroll warrant are given priority handling within the division to avoid or minimize penalty pay.

#### **AAM 360.300 Employee Labor Union Dues and Fees (10-14)**

An employee may authorize a payroll deduction for dues or fees to be paid to a union recognized by the State as the representative of the employee for collective bargaining with respect to wages, hours, and other terms and conditions of employment as provided in [AS 23.40.220](#).

The State formally recognizes the following 11 labor unions:

- Alaska State Employees Association Local 52, AFSCME, AFL-CIO (ASEA)
- Alaska Public Employees Association/Supervisory Unit (APEA)
- Confidential Employees Association (CEA)

- Public Employees Local 71 (LTC)
- Public Safety Employees Association (PSEA)
- Alaska Vocational Technical Center Teachers' Association (AVTECTA)
- International Organization of Masters, Mates, and Pilots, Pacific Maritime Region (MM&P)
- Inlandboatmen's Union of the Pacific Alaska Region (IBU)
- National Marine Engineers Beneficial Association (MEBA)
- Teachers' Education Association of Mount Edgecumbe (TEAME)
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- Alaska Correctional Officers Association (ACOA)

Labor unions have several types of dues and fees. Employees' authorizations to deduct dues or fees from pay are submitted to the respective unions. The unions verify applicants are state employees, update their rolls, and forward authorization forms to the Division of Finance for processing. Authorizations for dues from members of IBU, MEBA, and MM&P are forwarded to the Alaska Marine Highway System (AMHS) for processing.

Employee labor unions are required to meet published payroll calendar deadlines for submittal of authorization forms to the Division of Finance. Deductions are established in the payroll system prior to production payrolls. Failure to meet a published deadline may delay establishment of deductions until the following production payroll. The division is responsible for establishing dues and fee deduction records in the payroll system from authorization forms. The division will not process incomplete or unsigned forms.

When an employee transfers to a position represented by another union, it is the responsibility of the sending agency's payroll department to cancel union dues and fee deduction records for the previous position. When a deduction is taken in error, the Division of Finance processes an adjustment to refund dues or fees to the employee on the next production payroll. Labor unions will not be contacted when cancellation requests are the result of a bargaining unit change.

### **AAM 360.310 Employee Rents**

The cost of state-owned or -controlled housing is addressed in collective bargaining contracts. Each agency is responsible for establishing rent rates as provided in contracts and for collection of rent from agency employees who live in state-owned or state-controlled housing.

Agencies must ensure rents are collected in a timely manner. Agencies are responsible for establishing overpayments for past due rents. Refer to [AAM 330](#) Overpayments.

### **AAM 360.320 Legal Trust**

Members of the Alaska State Employees (ASEA) and the Alaska Public Employees (APEA) Associations are eligible to have the costs of some personal legal services paid from the Legal Trust Funds of these organizations. The State contributes an amount negotiated through the collective bargaining process to the funds. The amounts paid by the State on behalf of union members are considered taxable compensation by the IRS. The State is required to withhold federal income and Medicare taxes on the amount of the employer charge.

### **AAM 360.330 Marine Highway Salary Advances**

Some collective bargaining unit agreements for ferry employees allow members to receive draws of up to 50 percent of their wages while working on a ferry. Amounts equal to the draws received are deducted from employees' next payroll warrants. Employees whose wages have been garnished for child support or levied are not eligible for salary advances. The Division of Finance must inform the Alaska Marine Highway System (AMHS) of employees who are not eligible for draws.

All ferry system draw repayment deduction records are set up and maintained by the AMHS human resources office. A unique deduction number is assigned to each vessel on which an employee may receive a draw while on duty on the ferry. It is the responsibility of the AMHS to properly account for salary draws and ensure funds are collected from employee wages in a timely manner.

### **AAM 360.340 Memorial Scholarship Funds**

[AS 14.43.325](#) provides an opportunity for employees to contribute an amount equal to the value of one or more days of annual or personal leave to one or more of six state memorial scholarship funds. The funds are used to issue loans to students pursuing degree programs from an accredited college or university in specific fields. The following are the six memorial scholarship funds:

1. Michael Murphy - Law enforcement, law, probation and parole, penology, or closely related field.
2. Carroll Swartz - Criminal law, criminology, corrections, police science and administration, juvenile justice, or other fields closely related to criminal justice.



3. Harvey Golub - Civil, mechanical, electrical, electronic, petroleum, mining, traffic and transportation, sanitary, chemical, or other recognized field of engineering.
4. Robert Thomas - Degree program leading to a career in education, public administration, or other closely related field.
5. A.W. (Winn) Brindle - A certificate or degree program in fisheries, fishery science, fishery management, seafood processing, food technology, or other closely related field.
6. Nick Begich - Degree program leading to a career in education, public administration, government, or other closely related field.

Refer to [AAM 280.250](#) Leave Donated to Scholarship Funds, for additional information.

### **AAM 360.350 Overpayments**

Refer to [AAM 330](#) Overpayments, for information and policies on employee overpayments.

### **AAM 360.360 Savings Bonds (07-12)**

The U.S. Department of Treasury phased out the issuance of paper savings bonds through traditional employer-sponsored payroll savings plans. This was effective for the State of Alaska and all other non-federal entities as of January 1, 2011. In addition, paper savings bonds were no longer available for sale at financial institutions as of January 1, 2012.

To continue payroll savings, employees will need to establish an account through [TreasuryDirect](#). TreasuryDirect is a secure web-based system that allows investors to establish accounts to purchase, hold and conduct transactions online. Employees can then establish a payroll direct deposit into an account for purchasing savings bonds.

### **AAM 360.370 State Loans**

An employee may request a payroll deduction to repay state veterans' loans, energy loans, and state student loans. Assignments of wages to initiate payroll deductions must be requested through the Department of Commerce, Division of Investments, for veterans and energy loans and through the Alaska Commission on Postsecondary Education for student loans. Deduction records for veterans and energy loans are established and maintained by the Division of Finance. Deduction records for repayment

of student loans are initiated and maintained by the Alaska Commission on Postsecondary Education.

### **AAM 360.380 Workers' Compensation Charges**

As provided in [AS 37.05.510](#), the State carries workers' compensation, general liability, and auto insurance policies. Workers' compensation protects employees and their dependents against losses due to employment-related injury or death. The general liability policy covers all exposures except those specifically excluded by the policy. The auto insurance policy insures the lives of employees against accidental death while traveling within the scope of their employment. These policies cover all employees except those employed by the Alaska Marine Highway System (AMHS). Benefits are paid by the insurance company to injured employees, or to their survivors in the event of death.

The cost of insurance premiums is paid by the Department of Administration, Division of Risk Management. Risk Management determines the portion of the premium that is assessed to each state agency. The premium is collected as a percentage of gross wages of each employee in a department or as a lump sum transfer from an agency to the Division of Risk Management. The workers' compensation employer charge is assessed individually for each employee of an agency and the employer charge records are set up and maintained by the agency or the Division of Finance. No part of the cost is deducted from employee salaries.

### **AAM 360.390 Working Reserve - Leave Cash-in and Terminal Leave (01-13)**

[AS 37.05.510\(1\)](#) authorizes establishment of a statewide working reserve account that pools resources from all departments to pay for leave cash-ins (leave cashed in by current employees). Each agency contributes at the same rate. Each agency head is responsible for approving leave cash-ins for employees and for employees of boards, commissions, state-owned corporations, or any other independent agencies whose budgets are reviewed by the Office of Management and Budget and submitted as part of the department's budget.

Leave cash-ins are charged to agency-specific leave cash-in collocation codes. Leave cash-in employer charge records are set up and maintained by authorized agencies or the Division of Finance on behalf of the agencies. Employer charge rates for leave cash-ins are calculated as a percentage of regular pay for employees in leave-accruing positions and are processed every payroll. The agency-specific employer charge for leave cash-in must be inactivated if an employee transfers to another department or to a non-leave-accruing position.

[AS 37.05.510\(2\)](#) authorizes establishment of a statewide working reserve account that pools resources from all departments to pay **terminal leave** charges (the balance of unused leave to employees separating from state service). Terminal leave is charged to agency-specific terminal leave collocation codes. A single terminal leave rate is established for all state agencies.

Terminal leave employer charge records are set up and maintained by authorized agencies or the Division of Finance on behalf of the agencies. Employer charge rates for terminal leave are calculated as a percentage of regular pay for employees in leave-accruing positions and are processed with every payroll. Terminal leave records must be inactivated when employees transfer to non-leave accruing positions.

The Division of Finance is responsible for tracking leave cash-in and terminal leave expenditures and establishing rates based on the following factors:

1. Projected usage is based on averaged actual usage from previous years;
2. Projected contributions are based on estimated usage at a percent of personal services budgeted for the next fiscal year;
3. Rates are adjusted to ensure an available balance at fiscal year-end equivalent to two months leave usage.

Types of leave that may not be paid from the agency-specific leave cash-in or terminal leave collocation codes are payoffs of excessive leave, leave donations, comp leave, and leave cashed out for seasonal employees going on leave-without-pay. These types of leave are charged to an agency's budget.

<b>AAM 360.400 Working Reserve - Unemployment Insurance</b>
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[AS 37.05.510\(3\)](#) authorizes establishment of a statewide account to pool resources from all departments to pay unemployment insurance benefits (UI) to former state employees. This account is a part of the working reserve account. The state's unemployment insurance program is funded by the reimbursement rather than the tax method. Under the reimbursement method employees are not required to make contributions to the program.

The Division of Finance is responsible for establishing the unemployment insurance employer charge rate based on the following factors:

1. Projected usage is based on the averaged actual usage from previous years.

2. Projected contributions are estimated using a percent of personal services budgeted for the next fiscal year.

The employer charge for unemployment insurance is calculated as a percentage of pay for eligible employees.

Each agency human resources office must review new hires, promotions, demotions, and transfers to determine employee eligibility for UI coverage and to establish the correct UI indicator in employee payroll base records. The unemployment insurance charge is automatic in the payroll system based on information in payroll base records. Unlike other employer charges and employee deductions, adjustments for UI charges must be processed in the financial system. Agency accounting offices are required to document and prepare agency journal entries (AJEs) in the financial system to correct erroneous UI charges. The Division of Finance, Accounting Services Section, is required to dual authorize all AJEs correcting UI charges.

Agency human resources offices are responsible for addressing inquiries from the Department of Labor, Employment Security Division, about eligibility of former employees. Agency human resources offices may be required to verify the following:

1. The claimant performed covered service during the base period specified on the form.
2. The amount of wages paid during the base period by quarters or months as indicated.
3. The reason for termination.

After making these determinations, the human resources office completes the form and returns it to the Employment Security Division within four working days after receipt.

Agency human resources offices are responsible for informing employees who are leaving state service that they may be eligible for UI benefits. The Employment Security Division is responsible for all disbursements of unemployment benefits to qualifying individuals within Alaska.