



**STATE OF OKLAHOMA
OFFICE OF PERSONNEL MANAGEMENT**

"Working for Oklahoma"

OPM 07-35

DATE: September 10, 2007

TO: All Appointing Authorities

FROM: Oscar B. Jackson, Jr., IPMA-CP
Administrator and Cabinet Secretary of
Human Resources and Administration

A handwritten signature in black ink, appearing to read "Oscar B. Jackson, Jr.", positioned to the right of the "FROM:" field.

Tony Hutchison
Director, Office of State Finance

**SUBJECT: Procedures for Implementing House Bill 1114
Financial Reimbursement for Educational Expenses Act of 2007**

The Office of State Finance and the Office of Personnel Management have completed work on the development of procedures to assist state agencies with the implementation of "The Financial Reimbursement for Educational Expenses Act of 2007," (Enrolled House Bill 1114, 2007 Session), which permits interested agencies to provide financial reimbursement for educational loans for state employees. The attached documentation includes a summary of the act and processing instructions as well as sample forms for employees to fill out to provide necessary loan information. We ask that this information be disseminated to your agency's payroll clerk(s) and finance officers.

The procedures for agency payroll staff will be announced later this week and will be posted on the CORE website. If you have any questions, please contact the Office of State Finance, Lisa Raihl at (405) 521-3258 or Dan Thomason at (405) 522-6300.

*"We serve the people of Oklahoma by delivering reliable and innovative
human resource services to our partner agencies to achieve their missions."*

State of Oklahoma
Office of State Finance
Division of Central Accounting and Reporting

Financial Reimbursement for Educational Expenses Act of 2007
House Bill 1114

Payroll Procedures Update, August 31, 2007

Summary

The HB 1114 permits executive branch state agencies to make direct payments not to exceed \$5,000.00 in any 12-month period on behalf of an eligible employee to any private or public entity for qualified educational loan expenses. Such expenses must have been incurred prior to employment with the agency or directly related to employment incurred during employment. The cumulative total reimbursement cannot exceed \$15,000.00. Employees receiving assistance are committed to a “required payback period” of 2,000 hours of full-time employment for each \$5,000.00 of qualified educational loan expenses paid by the employing agency.

Funding

No funding is provided by HB 1114 for this optional benefit. Additionally, this benefit is subject to state and federal income taxes, social security taxes and unemployment tax. Therefore, in order to result in a fixed net amount payable toward the loan, these taxes must be considered in determining the total amount that would be required to fully fund the benefit.

The following table demonstrates agency costs at different loan repayment amounts.

	Examples			
Loan Repayment Amount	\$500.00	\$1,000.00	\$2,500.00	\$5,000.00
Estimated Agency Cost:				
Taxable Benefit Amount (Earnings)	810.37	1,620.75	4,051.86	8,103.73
Employer (ER) Share of FICA/MQFE	61.99	123.99	309.97	619.94
Est. Total Cost*	<u>\$872.37</u>	<u>\$1,744.73</u>	<u>\$4,361.83</u>	<u>\$8,723.66</u>

Taxable Benefit Calculation: $\text{Loan Repayment} / (1.00 - .062 - .0145 - .25 - .0565)$ or .617
2007 Flat tax rates: FICA = 6.2%, MQFE = 1.45%, Fed Tax = 25%, State Tax = 5.65%

* The agency could incur additional costs for unemployment taxes (UT), depending upon whether the employee has reached the maximum subject to UT and whether the agency is designated as a covered 1% tax participant or as a reimbursing participant.

As demonstrated above, the agency cost will be higher than the fixed loan repayment amount. Therefore, each agency should determine the overall impact to its budget based on its total estimated costs for eligible employees when considering whether to offer this benefit.

Eligibility

Suggested forms are attached for obtaining the employee information, the education and loan information, and the agreement to abide by this program. The following are required under this program:

- the employee is a full-time employee;
- the expense is a qualified expense – student-activity fees and expenses for course-related books, supplies, and equipment only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance;
- the loan is eligible – incurred prior to employment with the agency or for education expenses directly related to employment incurred during employment, and for which repayment is legally required over a period greater than 1 year; and
- The cumulative amount paid does not exceed the maximums allowed per employee – \$5,000 in any 12 month period, and \$15,000 total.

Once the information is verified, the agency may initiate the payments through the payroll systems.

Processing through PeopleSoft Payroll

- These payments should be processed through the regularly scheduled payroll run for the individual, such as the end-of-month payroll.
- The codes for the qualified educational expense loan reimbursement for time reporting, earnings and miscellaneous deductions are all the same code, which is “QEL”.
- To determine the total taxable benefit amount to be recorded with the earnings code QEL, use the “Online Check” feature in the payroll system. Enter the net amount desired for the loan payment and use the “gross-up” feature to determine the actual earnings amount that will need to be recorded for the employee. (Specific navigation and processing instructions are being documented and will be provided to payroll administrators.)

The following example calculates the approximate QEL earnings amount for a loan repayment of \$1,000.00. The actual “gross-up” feature amount will be slightly different than this example due to rounding in the system.

Example: $\$1,000 / .617 = \$1,620.75$ QEL earnings

- The earnings amount, \$1,620.75 in this example, will be assigned to the earnings code QEL. The payroll account/object code is 511300, Education Loan Reimbursement Incentive.
- The loan repayment amount, \$1,000 in this example, will be assigned to the miscellaneous deduction code QEL (vendor ID 0000001114).
- The “Payroll to AP” process will create a miscellaneous withholdings voucher on class 994, with account/object code 633190, Other Miscellaneous Deductions.
- Before the payments are processed, the generic vendor ID No. 0000001114, Qualified Education Loan Reimbursement, must be changed on the AP Voucher Payee page to the actual vendor ID for the specific loan provider. (Use OSF Form VEND to add or update vendor/loan provider information.)

NOTE: These payroll codes cannot be used for any earnings or deductions other than those authorized under HB 1114.

Listed below are examples of how different payment scenarios will affect an eligible employee’s monthly check:

\$35,000.00 Annual Salary, Monthly Pay Period

	Without Loan Pmt	With \$200 Loan Pmt	With \$416.66 Loan Pmt	With \$5000 Loan Pmt
REG Earnings	2,916.67	2,916.67	2,916.67	2,916.67
QEL Earnings		324.15	675.30	8,103.73
Deductions:				
FICA	180.83	200.93	222.70	683.26
MQFE	42.29	46.99	52.08	159.80
OPERS EE	102.08	102.08	102.08	102.08
Fed Tax	315.44	396.48	484.26	2,341.37
State Tax	120.95	139.27	159.11	578.82
QEL Deduct	0.00	200.00	416.66	5,000.00
Net Check	2,155.07	2,155.07	2,155.07	2,155.07

Calculations

The changes between the first column and the others in the deduction amounts are attributable to the 2007 Flat tax rates on QEL Earnings for FICA of 6.2%, MQFE of 1.45%, Fed Tax of 25%, and State Tax of 5.65%. These rates are subject to change each year.

$$\text{QEL Earnings Amount} = \text{QEL Deduct Amount} / (1.00 - .062 - .0145 - .25 - .0565) \text{ or } .617$$

Processing through Legacy Systems

Higher education agencies using the legacy payroll accounting system, PACS, must set-up internal agency systems with the earnings, object codes and deductions as described above to effect the appropriate payroll expenditures and taxes. These payroll codes cannot be used for any earnings or deductions other than those authorized under HB 1114.

If you have any questions please contact OSF, Lisa Raihl at 405-521-3258 or Dan Thomason at 405-522-6300.

**FINANCIAL REIMBURSEMENT FOR EDUCATIONAL EXPENSES ACT OF 2007
PROGRAM TO IMPLEMENT**

Definitions of Act:

1. "Agency" means any executive branch entity of state government, including agencies that do not receive direct appropriations from the Oklahoma Legislature;
2. "Eligible Employee" means a person who is a full-time employee of an agency and who incurred a debt pursuant to the obligations under a qualified education loan;
3. "Qualified Education Loan" means a debt owed by the employee to any private or public entity for which repayment is legally required over a period greater than one (1) year; the proceeds from which were used by the employee to make payment of tuition, fees and/or other education expenses, such as books and materials, to an institution of higher learning including any private college or university for coursework to obtain an undergraduate or graduate degree; and,
4. "Required Payback Period" means two thousand (2,000) hours of full-time employment with the payer or agency for each Five Thousand Dollars (\$5,000) of qualified education loan expense paid by the agency.
5. The agency will make direct payments not to exceed Five Thousand Dollars (\$5,000) in any twelve-month period on behalf of an eligible employee to any private or public entity for which a qualified education loan expense is owed by the employee. An agency will not make cumulative payments on behalf of any single employee that total an amount greater than Fifteen Thousand Dollars (\$15,000).

Program Responsibilities and Duties:

Appointing Authority--

1. The agency will make direct payments not to exceed _____ in any twelve-month period on behalf of an eligible employee to any private or public entity for which a qualified education loan expense is owed by the employee.
2. The agency shall only make payments on qualified education loan obligations incurred prior to employment with the agency or qualified education loan obligations associated with education directly related to employment incurred during employment.
3. The agency reserves the right to terminate the educational loan reimbursement program under the sole discretion of the appointing authority.

Employee--

1. If an eligible employee terminates service with the payer agency prior to the expiration of the required payback period, the employee is required to reimburse the agency for the amount of the qualified education loan expense. If the employee performs less than the number of hours of service required for the full amount of the expense paid, the agency shall be reimbursed on a pro rata basis based upon the actual number of hours of serviced performed by the employee.

I have read and agree to abide by the provisions as set forth in 74 O.S. §1731 – 1734. I agree to provide an accurate statement of eligible student loans for payment under the Financial Education Reimbursement Act of 2007.

Dated this _____ day of _____, 20____

Employee

Employer/Appointing Authority

REQUEST FOR FINANCIAL REIMBURSEMENT OF EDUCATIONAL EXPENSES

Date of Request: _____

Employee Name: _____

Employee ID #: _____ Employee SS#: _____

Requisitioning Agency: _____

**Qualifying Educational Degree: _____

**Qualifying Course of Study: _____

Date of Employment: _____

***Loan Information**

Original Date of Loan: _____

Qualified Education Loan Lender: _____

Address: _____

Telephone Number _____

Account #: _____

Name on Account: _____

Total Amount of this Payment \$ _____

Previous Payments Total \$ _____

Total Paid on Behalf of Employee \$ _____

HB 1114 Benefit Balance Remaining \$ _____

*** Attach a current copy of the employee student loan statement.**

****Attach a copy of an educational transcript, current degree plan or class schedule indicating course of study.**

Approved for Payment by _____

Authorized Signature

Print: _____ Name _____ Title _____ Date _____

