

1. Title

Operating Plan for Charging Rate to Fund Lump Sum Payments of Vacation and Sick Leave

2. Policy

Sec. 1 Purpose. This policy is intended to provide guidelines for a cost distribution and funding procedure covering lump sum payments to eligible terminated employees or their estates for accrued vacation and sick leave.

Sec. 2 Establishment of Reserve Account. A reserve account shall be established and maintained for the funding of the payment of lump sum vacation and sick leave amounts for terminating employees or their estates.

Sec. 3 Requirement. This policy is intended to facilitate the payment of accrued vacation and sick leave as required by the *Texas Government Code* Sections 661.031-.038 and Sections 661.061-.068.

Sec. 4 Payment for Vacation Time. The *Texas Government Code* states that when an employee separates from State employment or dies, subject to certain requirements, (s)he is entitled to be paid for the accrued balance of the employee's vacation time as of the date of separation or death.

Sec. 5 Payment for Sick Leave. Accrued sick leave for terminating employees is only paid in the event of the death of an employee. The estate is paid for one-half of the accrued sick leave balance or 336 hours, whichever is less.

Sec. 6 Payments from Reserve Account. Payments to terminating employees or their estates, for vacation and sick leave, are paid from the reserve account.

Sec. 7 Establishing and Maintaining the Reserve Account. The reserve account is established and maintained by applying a percentage rate to the total gross payroll each month and charging that to the fringe accounts associated with the various payroll accounts.

Sec. 8 Development of an Accrual Rate.

8.1 The accrual rate shall be determined as follows:
Calculate the quotient of the fraction where the

- (a) Numerator = the total lump sum payments made for vacation and sick leave during a given period to all eligible terminating employees, and
- (b) Denominator = the total eligible salaries and wages paid to all employees during the same period used in Section 8.1(a) above.
- (c) Professional judgment should be used in determining what time period to use for the calculation. Other factors to consider are any unusual occurrences that may affect the data for the time period used for the calculation and any future anticipated changes or trends at the institution that may affect the reserve.

8.2 Actual activity affecting the reserve should be evaluated at least annually to determine if the rate should be adjusted for subsequent periods to increase the reserve balance or reduce excessive reserves.

Sec. 9 Application of the Rate.

- 9.1 The rate shall be applied on a nondiscriminatory basis in all fund sources to all salaries and wages that create eligibility for lump sum vacation and sick leave payments upon termination of employment. All such salaries will also be included in the base used to calculate the rate as described in Section 8 above.
- 9.2 Rates will not be applied to salaries that do not generate eligibility for lump sum payment, and such salaries will not be included in the base used to calculate the rate.
- 9.3 Salaries paid during the first six months of employment to a new employee will not generate eligibility for payment of lump sum vacation if termination occurs before the six months have elapsed. However, rates will be applied to such salaries and charged without regard to this limitation on eligibility. Similarly, such salaries will be included in the base used to calculate rates and the resultant balance in the reserve account, described in Section 10 below, will be included in the carry-forward amount.

Sec. 10 Reserve Account.

- 10.1 It is suggested that the account be titled "Reserve for Lump Sum Payments of Vacation and Sick Leave."

- 10.2 The reserve account shall be established and maintained as a Service Department account in the Designated Funds group. All applications in Section 9 above will be credited to the reserve account of the institution and accumulated therein.
- 10.3 Actual payments of vacation and sick leave to terminating employees, and the appropriate payroll taxes and expenses thereon, will be the only charges to the reserve account. Vacation or sick leave used will not be charged to this account.
- 10.4 The purpose of the reserve account will be to provide for cost distribution of lump sum vacation and sick leave payments made during a current fiscal year. Contingency provisions for costs of future years or other purposes are not to be included.
- Sec. 11 Adequacy of the Reserve Account. The reserve account is intended to contain a reasonable balance sufficient to make payments as they become due during the year for vacation and sick leave for terminating employees.
- Sec. 12 Funding of the Reserve Account. The reserve account may be funded via the due to/due from mechanism between fund groups; however, the funding from legislative appropriations should be limited to that portion of terminating payments that can be related to salaries and wages paid from legislative appropriations. If the source of funds for salary payments in prior years of terminating employees is not readily available, the determination should be based on the source of funds at the time of the termination.
- Sec. 13 Monitoring of the Reserve Account and Accrual Rate. The reserve account should be monitored on an ongoing basis for adequacy as described in Section 11.
- Sec. 14 The Associate Vice Chancellor – Controller and Chief Budget Officer is responsible for interpreting this policy and revising it as necessary to meet the changing needs of the U. T. System and any statutory requirements.

3. Definitions

None

4. Relevant Federal and State Statutes

Texas Government Code Sections [661.031-.038](#) and Sections [661.061-.068](#)

5. Relevant System Policies, Procedures, and Forms

None

6. System Administration Office(s) Responsible for Policy

Office of the Controller

7. Dates Approved or Amended

October 20, 2006
November 16, 2009
May 26, 2011