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December 27, 2011

TO: Board of Supervisors
Department Heads
Deputy Chief Executive Officers

FROM: Wendy L. Watanabe
Auditor-Controller

*Wendy L. Watanabe
by
Schneiderman*

SUBJECT: **ADJUSTMENTS AFFECTING YEAR-END AND NEW YEAR PAYDAYS**

At the end of one calendar year and beginning of another, many of you will see, or may have seen fluctuations, in your net pay. This memo highlights the benefits, deductions, taxes, etc. that may change, and consequently reduce or increase your net pay; and summarizes upcoming changes to the County's deferred plan limits and match.

December 15, 2011 payday – Taxes on Imputed Income for Supplemental Life Insurance and Imputed Income for personal use of your County-provided vehicle may reduce your net pay.

December 30, 2011 payday – The Cafeteria Plan Taxable Cash Advance or Advance Salary Reduction will reflect 2012 changes in insurance premiums and may change your net pay.

January 13, 2012 payday – The following will affect your January 13, 2012 net pay:

- Deferred Income Plans
- Federal and State Tax Changes
- MegaFlex/Flex Plan Changes

The attachment explains how these benefits, deductions, taxes, etc. may increase/reduce your net pay during the next three paydays; and overviews upcoming changes to the County's deferred plan limits and match. If you have any questions, please call me or your staff may call Gregg Iverson, Division Chief, at (213) 974-8401.

WLW:RAD:GI:KB

c: Chief Deputies
Administrative Deputies

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ADJUSTMENTS AFFECTING YEAR-END AND NEW YEAR PAYDAYS

DECEMBER 15, 2011 PAYDAY - SUPPLEMENTAL LIFE INSURANCE

On the December 15, 2011 payday, the taxable value of Supplemental Life Insurance (commonly referred to as the Split Dollar Life Insurance Program) may be added to your taxable earnings as "imputed income" with applicable taxes (federal tax, State tax and Hospital Insurance Tax) withheld. As taxable earnings, imputed income will be used to calculate Savings Plan and Horizons Plan (deferred plans) employee contributions. If you have not reached an annual limit on deferred plan contributions, you will see increased deferred plan deductions.

Under County Code Section 5.39.030 – "Supplemental Life Insurance", the County pays a monthly life insurance premium for department heads and County officers at no cost to the employee. The value of the insurance is a taxable fringe benefit under the Internal Revenue Code (IRC). The Internal Revenue Service (IRS) requires the County to calculate the cost to purchase the benefit using IRC procedures and rates, and include the cost in the employee's taxable earnings.

DECEMBER 15, 2011 PAYDAY – TAXABLE VALUE OF PERSONAL USE OF A COUNTY-PROVIDED VEHICLE

The IRS requires employers to include the value of an employee's personal use of an employer provided vehicle in the employee's taxable earnings. The method to determine the value of personal use is based on IRS procedures and rates.

On the December 15, 2011 payday, the value of your personal use of a County-provided Vehicle will be added to your taxable earnings as "imputed income" with applicable taxes (federal tax, State tax and Hospital Insurance Tax) withheld. As taxable earnings, imputed income will be used to calculate Savings Plan and Horizons Plan (deferred plans) employee contributions. If you have not reached an annual limit on deferred plan contributions, you will see increased deferred plan deductions.

Departments have the option of spreading the impact on an employee's taxes by calculating an annual estimate of the imputed income amount, and reporting a portion of the estimate each payday during the year. If your department elects to spread the cost, the Auditor-Controller will then add the difference between the annual taxable value and the total imputed income reported during the year to your December 15, 2011 payday's taxable earnings for withholding of applicable taxes.

Note: Employees who have paid for a leased vehicle through the County Security Program will not have increased taxable earnings for the personal use of that vehicle.

REPORTING OF IMPUTED INCOME FROM SPLIT DOLLAR LIFE INSURANCE AND COUNTY-PROVIDED VEHICLES

If you receive a paper pay statement, the “imputed income” is included in the “Imputed Income” box on the pay statement. If you receive an electronic online pay statement, the imputed income is included in the “Employer Benefits/Imputed Income Information” section of the pay statement. The imputed income will also be included as taxable earnings on your W-2 for 2011.

DECEMBER 30, 2011 PAYDAY – CAFETERIA PLAN TAXABLE CASH OR ADVANCE SALARY REDUCTION

As a participant in the MegaFlex or Flex cafeteria plans, on the 30th payday each month, you either receive an advance of half of your monthly taxable cash benefit, or have an advance deduction of half the cost of your monthly insurance.

These amounts will change to reflect an overall decrease in the 2012 insurance premiums purchased through your cafeteria plan.

2012 MegaFlex/Flex Plan Elections

Your 2012 MegaFlex/Flex cafeteria plan elections from the October enrollment period will be reflected on the January 13, 2012 payday. Additionally, rate and premium changes may cause a change to taxable cash benefit or pretax cafeteria deduction. Refer to your open-enrollment confirmation statement for detailed changes to your benefits.

DEFERRED PLANS – SAVINGS AND HORIZONS

- Year-End Savings Plan Match

To prevent MegaFlex employees from losing County Savings Plan Match when crossing over to a new year, the employees will see a slight increase in the December 30, 2011 match and a corresponding decrease in the January 13, 2012 payday match.

This is being done to prevent loss of match that may result from annualized matching rules.

- 2012 Contributions

If your deferred plan deductions stopped in 2011 because you reached an annual dollar limit, you will see these deductions resume with the January 13, 2012 payday, thereby causing a normal reduction in net pay.

The annual dollar limits on deferred plan contributions have changed for 2012. The limits are:

- If you are participating in the Savings Plan, your contributions are limited to \$17,000 (\$22,500 if you are 50 or over).
- If you are participating in the Horizons Plan, your contributions and County match combined are limited to \$17,000 (\$22,500 if you are 50 or over).
- If you are participating in the accelerated Horizons Plan, your contributions and County match combined are limited to a maximum of \$34,000 (the actual limit may vary by employee).
- If you are participating in the Savings and Horizons Plans, and elected the "low-limit", your combined Savings Plan contributions, Horizons Plan deductions and County Horizons Plan match are limited to \$8,500.

The County match to each deferred plan will remain at 3% through the July 13, 2012 payday, and starting on the July 30, 2012 payday, the match on both plans will be restored to the full 4%.

2012 FEDERAL AND STATE TAX CHANGES

The IRS has not released the 2012 income tax table as of the date of this memo. As such, we are unable to provide information on changes to federal income taxes. Once received, we will distribute the information.

The State income tax withholding tables are available and will be implemented with the January 13, 2012 payday. In general, employees will see a small decrease in State tax withholdings.