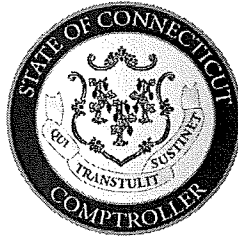


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## MEMORANDUM NO. 2024-15

June 25, 2024

### TO THE HEADS OF ALL STATE AGENCIES

**Attention:** Chief Administrative and Fiscal Officers, Business Managers, and Payroll and Human Resources Officers

**Subject:** **Deceased Employees' Wages**

#### I. PURPOSE

This memorandum supersedes Memorandum No. 2011-2 dated February 4, 2011, and provides processing instructions, the Core-CT Earnings Codes for payment of deceased employees' wages, the Expenditure Account, and Internal Revenue Service (IRS) reporting procedures.

#### II. AUTHORITY

Section 5-253 of the Connecticut General Statutes (CGS) authorizes payment for extra hours of work and accumulated vacation allowance upon the death of a state employee and details the terms under which such payment is made.

In addition, the IRS provides direction for reporting the payment of deceased employees' wages as a special reporting situation in the Instructions for Form W-2.

#### III. DEATH NOTIFICATION PROCEDURES

Pursuant to CGS Section 5-253, the payment of extra hours of work and accumulated vacation allowance should be made to the surviving beneficiary designated under the State Employees Retirement System (SERS) or if no beneficiary has been designated to the estate of the deceased.

Agencies must immediately report the death of an employee to the Comptroller's Office by submitting a completed Form CO-638, "Notice of Death of State Employee". While completing this form, if the employee was a member of SERS or the Alternate Retirement Program, a request should be made for the name of the

beneficiary designated on the employee's Form CO-999, "Designation of Retirement Plan Beneficiary Form for Active/Inactive Members". Immediate notification to OSC is essential, if a completed Form CO-638 is not immediately available, initial notification of the active employee's death should be sent via email to the impacted OSC Units. Agencies are still required to submit the completed Form CO-638 as soon as it is available.

The following procedures must be completed when reporting the death of an active employee to the Office of the State Comptroller:

- Submit one copy of the completed CO-638 to Active and Pension Payroll Services Division's Active Payroll Unit via email to [OSC.payroll@ct.gov](mailto:OSC.payroll@ct.gov).
  - Be sure to also provide the applicable earn code(s) (DT1 – DT4) and the amount(s) for APPSD to issue the payment.
  - Indicate to whom the check is to be made payable to: Either to the Estate of... or to a beneficiary and provide the name, SSN and current address of the recipient(s). Important: No payments (including refunds) should be issued in the name of the deceased employee.
  
- Submit one copy of the completed CO-638 and a copy of the death certificate to the Retirement Services Division's Customer Service Unit via email to [osc.rsd@ct.gov](mailto:osc.rsd@ct.gov). If an employee's spouse is eligible for a Pre-Retirement Death Benefit under Section 5-165(a), please be sure to complete the Pre-Retirement Death Benefit section of the submitted CO-638 and also forward the retirement application to the Retirement Services Division: [OSC.Retirementaudit@ct.gov](mailto:OSC.Retirementaudit@ct.gov), [OSC.ScanningUnit@ct.gov](mailto:OSC.ScanningUnit@ct.gov), [Donald.Wilkerson@ct.gov](mailto:Donald.Wilkerson@ct.gov) and [Patricia.Meskers@ct.gov](mailto:Patricia.Meskers@ct.gov)
  
- If the employee participates in Group Life Insurance and/or Supplemental Life Insurance, submit one copy of the completed CO-638 to the Healthcare Policy and Benefit Division's Group Life Insurance Unit via email to [osc.benefitcorrections@ct.gov](mailto:osc.benefitcorrections@ct.gov). The unit will submit all applicable death claims for processing and payment to the beneficiaries noted in Core-CT.
  
- Submit one copy of the completed CO-638 to the Retirement Services Division's Miscellaneous Unit if the employee participates in one or more of the following plans: Deferred Compensation 457 Plan (DEFFLT) pre-tax, (CT457) post-tax, 403(b) Plan (TSAFLT) pre-tax, 403(b) Plan (CT403F) post-tax they will assist with updating account status with the administrator.
  
- Submit one copy of the completed CO-638 to the Healthcare Policy and Benefit Division's OPEB Unit if the employee contributes or has contributed to the Retirement Health Fund (OPEB) via email to [osc.opeb@ct.gov](mailto:osc.opeb@ct.gov). Agencies must

complete and submit a form CO-1301, "Retiree Health Fund-Application for Contributions Refund" to [osc.opeb@ct.gov](mailto:osc.opeb@ct.gov) to request distribution of any available funds if the employee died prior to retirement or when no Pre-Retirement Death Benefit is due.

#### **IV. PAYROLL PROCEDURES**

Payments created **in the same calendar year** the employee died or **after the calendar year** of the employee's death must be processed through payroll. All wages due to the employee, including but not limited to regular earnings, vacation pay, longevity, sick pay and overtime, must be combined and paid under the appropriate Earnings Code listed in Section V of this memorandum.

Agency payroll staff must inactivate direct deposit and close all active general deductions except retirement contributions prior to, or at the time of, the final payment. No deductions, other than retirement, group life insurance, supplemental life insurance, medical, prescription, dental and FICA/Medicare (see tax and deduction requirements associated with each Earnings Code in Section V), should be made from this payment.

Agencies must contact the Retirement Services Division's Miscellaneous Unit at [DeferredCompPlans@ct.gov](mailto:DeferredCompPlans@ct.gov) to process suspension of any of the 457 plan and 403(b) plan deductions.

The Healthcare Policy and Benefit Division's Employee Benefits Unit will notify any applicable vendors for any Flexible Spending Plan (i.e., DCAP, MedFlex) participants and/or Supplemental Benefits (i.e., auto insurance, short-term disability) participants to ensure suspension of any future attempted deductions.

Agencies must ensure that employee and state share deductions for medical, dental, prescription, group life and supplemental group life coverage are taken for the full month of coverage during the month of the employee's death as well as any missed payroll deductions or billing charges owed.

#### **V. PAYROLL RELATED EARNINGS AND DEDUCTION CODES**

The following codes **must** be used for all deceased employee payments.

**DT1, YEAR OF DEATH SALARY** - This earnings code is to be used to pay all earnings owed (other than sick pay) when the payment is made in the same year the employee died. It is not subject to Federal or State Withholding Tax. It is subject to FICA, Medicare and Retirement Contributions.

**DT2, YEAR OF DEATH SICK** - This earnings code is to be used to pay a lump sum sick payment when the payment is made in the same year the employee died. It is not subject to Federal or State Withholding Tax or Retirement Contributions. It is subject to FICA and Medicare.

**DT3, YEAR AFTER DEATH SALARY** - This earnings code is to be used to make a salary payment (other than sick pay) when the payment is made in the year after the employee died. It is not subject to Federal or State Withholding Tax, FICA, or Medicare. It is subject to Retirement Contributions.

**DT4, YEAR AFTER DEATH SICK** - This earnings code is to be used to make a lump sum sick payment when the payment is made in the year after the employee died. It is not subject to Federal or State Withholding Tax, FICA, Medicare, or Retirement Contributions.

**OPEB Retirement Health Fund** – If eligible for refund, the appropriate OPEB deduction code, based on the employee’s general deduction enrollment, is to be used to issue the refund payment of OPEB deductions that were taken during active employment. Tax and IRS reporting requirements are based on current year of death payment versus prior year of death payment. See section VIII for additional information.

Failure to use the appropriate death payment earnings code will lead to Federal and State tax compliance issues.

## **VI. EXPENDITURE ACCOUNT**

The following expenditure account is to be used for the payment of accrued sick leave and vacation upon the death of a state employee.

50190 Accumulated Leave - Payments for Accrued Sick and Vacation Leave at Death, Retirement or Termination.

## **VII. TIME AND LABOR CONSIDERATIONS**

- **TIMESHEET EARNINGS**

Wages due to the employee should include all hours worked during the current pay period prior to the employee’s death, the remainder of their vacation balance, one-quarter of the employee’s sick balance up to a maximum of sixty (60) days provided that the employee has complete the required years of State service . If the employee was scheduled to work, the date of death should be coded to REG. Payment may also be due for outstanding vacation accrual(s) and longevity.

- **ADJUSTING ACCRUAL BALANCES**

In addition to ensuring the appropriate DT series earnings codes are used to issue deceased employee payments, agencies are also requested to adjust the corresponding leave accrual balances in the same pay cycle as the payout check is being issued. Using the DT codes for payout to the deceased employee will not automatically adjust accruals balances.

The adjustment TRCs need to be entered on the Timesheet as a negative value (use VAD to deduct VAC, SKAD to deduct SICK and PLAD to deduct Personal). These adjustment TRCs need to be entered (and approved) prior to Confirm of the employee's last paycheck otherwise the adjustment TRCs will not process.

Lastly, the employee's Leave Plans need to be terminated by adding a row on the Leave Plan Enrollment page effective dated the day after the employee's death. A termination row needs to be added for each type of Leave Plan (SICK, VAC and Personal) that the employee is enrolled in.

For any additional questions related to adjusting leave accrual balance may be directed to the following DAS Time and Labor team Contacts:

[Sean.M.Anderson@ct.gov](mailto:Sean.M.Anderson@ct.gov) and [Linda.Ward@ct.gov](mailto:Linda.Ward@ct.gov).

## **VIII. REPORTING TO THE IRS**

When an employee dies, any accrued wages, vacation pay, and other compensation paid after the date of death must be reported to the IRS. The Comptroller's Office will report the payment on the employee's Form W-2 and/or Form 1099-MISC to the beneficiary or estate, as appropriate. The recipient of the wages paid following death will likely be issued a 1099-MISC form at the end of the year, issued by the Central Accounts Payable Division.

- **Payment Made in the Year of Death**

If the payment is made **in the same calendar year** the employee died, FICA and Medicare taxes on the payment must be withheld and the payment reported on the employee's Form W-2 as Social Security and Medicare wages. This will ensure the deceased employee's survivors receive the benefit of proper Social Security and Medicare credits.

The payment must also be reported on Form 1099-MISC, Miscellaneous Income, as a payment to the beneficiary or estate. The name and taxpayer identification number of the beneficiary or estate must be used on Form 1099-MISC.

When processing an OPEB Refund for a deceased employee in the current Year of Death, all taxes should be taken from the deceased employee as this is a before tax benefit at the time it is deducted from the employee's wages. When refunding OPEB, it becomes taxable income for the employee. Therefore, when the OPEB refund is processed in the Year of Death payment, the deceased will receive a Form W-2 for that year. The beneficiary will not receive a 1099-Misc for the OPEB Refund amount.

The beneficiary will get a 1099-MISC for any DT payments paid out to the deceased in the current year when the payment is made out to the beneficiary.

- **Payment Made after the Year of Death**

If the payment is made **after the calendar year of death**, it is not subject to FICA and Medicare taxes and is not reported on Form W-2.

However, the payment must be reported on Form 1099-MISC, Miscellaneous Income, as a payment to the beneficiary or estate. The name and taxpayer identification number of the beneficiary or estate must be used on Form 1099-MISC.

When processing an OPEB Refund for a deceased employee who died in a previous year, all taxes should be waived (Federal, State, Social Security and Medicare) and all deductions should be turned off for the deceased. A Form W-2 should not be generated for the deceased employee and the beneficiary may receive a 1099-Misc form for this payment.

## **IX. QUESTIONS**

Questions concerning this memorandum may be directed to the Office of the State Comptroller as follows:

### **Payroll Procedures and Memorandum Interpretation:**

Active and Pension Payroll Services Division  
[osc.payroll@ct.gov](mailto:osc.payroll@ct.gov) or (860) 702-3471;

### **Pension Beneficiary Questions:**

Retirement Services Division, Customer Services Unit  
[osc.rsd@ct.gov](mailto:osc.rsd@ct.gov) or (860) 702-3480;

### **Defined Contribution plan (457 and 403(b) plan) Questions:**

Retirement Services Division, Miscellaneous Unit  
[DeferredCompPlans@ct.gov](mailto:DeferredCompPlans@ct.gov);

**Group Life and Supplemental Life Insurance Questions:**

Healthcare Policy and Benefit Division, Group Life Unit  
[osc.benefitcorrections@ct.gov](mailto:osc.benefitcorrections@ct.gov) or (860) 702-3537;

**OPEB Retiree Health Fund Questions:**

Healthcare Policy and Benefit Services Division, OPEB Unit  
[osc.opeb@ct.gov](mailto:osc.opeb@ct.gov) or (860) 702-3535 option 3;

**Medical, Prescription and Dental Insurance Questions:**

Healthcare Policy and Benefit Services Division, Central Benefits Unit  
[osc.benefitcorrections@ct.gov](mailto:osc.benefitcorrections@ct.gov) or (860) 702-3535;

**Flexible Spending and Supplemental Benefit Questions:**

Healthcare Policy and Benefit Services Division, Employee Benefits Unit  
[osc.ebu@ct.gov](mailto:osc.ebu@ct.gov) or (860) 702-3543



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