Payment for Unused Annual Leave

Annual leave payments are issued to employees at the time of termination as long as the probationary period has been completed successfully and the employee has completed at least 6 months of continuous and creditable employment. Annual leave may also be paid out at the time the appointment of a faculty employee is changed from a twelve-month appointment to a nine-month appointment. Additionally, when an active Staff, Administrative employee, Faculty member, or Executive Service employee enrolls in the Deferred Retirement Optional Program (DROP), the employee may elect to be paid for up to the year end maximum of their unused annual leave. The payment of unused annual leave under this provision will not constitute a break in service. Annual leave payments for terminated employees are processed per the *Leave Payout Operating Procedures for Terminating Employees*. Departments must complete an audit of the employee's annual leave balance within two weeks of separation and make any necessary adjustments by that time. No other action is required by departments unless they desire to use a different payment distribution from the normal distribution for that employee.

Payroll will make the annual leave payout approximately 30 days after the employee's separation date. Employees are paid for their unused annual leave subject to limits in the maximum number of hours employees may receive.

The limits are:

- Staff employees receive a maximum of 240 hours of annual leave. Staff employees must have completed at least 6 months of continuous service to be eligible to receive payment for unused annual leave.
- Administrative and 12-month faculty employees receive a maximum of 352 hours of annual leave.
- Executive Service employees receive a maximum of 480 hours of annual leave.

To initiate payment of annual leave when an employee enters DROP and elects to cash out annual leave hours, follow the procedures outlined in the *Leave Payout Operating Procedures for Terminating Employees*. This action will require a *DROP Annual Leave Cash-Out Form*.

Annual Leave cannot be processed with the employee’s last regular hours. For example, if an employee terminates in the middle of a pay period and is due any hours of regular pay, the Annual Leave Payment must be made on a subsequent payroll.

Annual Leave Payments are processed with the Regular Bi-weekly Payroll.

Deductions from Annual Leave Payouts

Federal withholding tax is withheld at a flat 25%. Social Security and Medicare deductions are based on current percentages. If the employee opted for an Employee optional retirement deduction from their regular bi-weekly salary payments, that deduction will be taken on the annual leave payout as well at the percentage specified.

Additionally, employees may elect to divert extra amounts to existing 403b annuity or state deferred compensation plans by completing a *Lump Sum Rollover Request* form. The form may be obtained from your Benefits Representative in your Service Center and must be submitted to Payroll within two weeks of the employee's separation date or with the *DROP Annual Leave Cash-Out Form*. Generally, the employee will need to meet with their Benefits Representative prior to separation from the university to discuss this option. Note that federal limits for retirement deferrals apply to this type of transaction and each individual employee's deferral limits must be calculated before the payout is made.