

University of Puget Sound
Early Retirement and Career Change Policy

Guidance on Application, Payment, and Taxation

Application for Benefits:

An application for early retirement or career change benefits must be executed at least 365 days prior to the desired effective date. The university may consider applications with less notice providing that the desired effective date is no less than 180 days from the execution of the application. Application forms are available in the Academic Vice President's office and on the university's Web site along with the Early Retirement and Career Change Policy.

Payment of Benefits:

Early retirement or career change benefits are paid in a lump sum payment made as soon as administratively feasible in June, for faculty leaving at the end of the second semester of the academic year, or as soon as administratively feasible in January for faculty leaving at the end of the first semester of an academic year. Payment is conditioned on the performance of substantial services, e.g., turning in grades to the Registrar and being available to students, through the 1st week of June (for faculty leaving at the end of the second semester of an academic year) or the 1st week of January (for faculty leaving at the end of the first semester of an academic year).

Taxation of Benefits:

Under the Internal Revenue Code, "Tax Code," the Early Retirement and Career Change plan is considered to be a nonqualified deferred compensation plan. Benefits under this plan are subject to Federal Insurance Contributions Act (FICA) and federal income taxation. Distributions under this plan are not eligible for transfer or rollover. Taxation of benefits is in accordance with IRS rules and is described below.

Early retirement and career change benefits are subject to FICA taxes when paid, at which point the faculty member will have performed the substantial services required to receive the benefit payment. The Social Security portion of FICA taxes is subject to an annual cap each year. For example, the Social Security wage base for 2006 is \$94,200 and this amount increases annually. The faculty member's earnings during the year of early retirement or career change will apply towards meeting the maximum taxable earnings for Social Security taxes. Therefore, a faculty member retiring or changing careers in June may have less of his or her early retirement benefit payment subject to Social Security taxes than a faculty member who receives an early retirement or career change benefit payment in January. This is because the combination of the member's earnings through June plus the early retirement or career change benefit payment may enable the faculty member to more easily reach the maximum taxable earnings for Social

Security taxes. In contrast, a faculty member receiving an early retirement or career change benefit payment in January will have no other earnings that will be applied towards the maximum taxable earnings for Social Security taxes. Therefore, it is likely that more of the early retirement or career change benefit payment will be subject to Social Security taxes when a faculty member retires or changes careers at the end of the first semester in an academic year.

In contrast to Social Security, there is no cap on the wages that are subject to Medicare taxes. Thus, the entire early retirement or career change benefit payment will be subject to Medicare taxes.

The FICA earnings related to early retirement and career change benefits are reported on IRS Form W-2 in the year early retirement or career change benefits are paid.

Federal income taxes are due in the year that the benefits are paid, at which point the faculty member will have performed the substantial services required to receive the benefit payment. The university will withhold at the flat rate for supplemental wage payments, which is currently the third lowest tax rate applicable to single filers (currently 25 percent). Early retirement and career change payments are reported on IRS Form W-2 in the year early retirement or career change benefits are paid.

Questions:

Questions about Early Retirement and Career Change Policy should be directed to the Academic Vice President. The Associate Vice President for Human Resources can provide benefits projections. Questions about the taxation of benefits should be directed to the Associate Vice President for Accounting and Budget Services.

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