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## FIVE KEY ISSUES IN RETIREMENT PLANNING

For most workers, "retirement" is the time when they apply for regular, monthly Social Security retirement benefit payments. How does one's age at "retirement" affect the benefit amount the "retiree" is entitled to receive?

### ISSUE #1: What is "Normal" Retirement Age?

Until the end of 1999, the "normal" age to begin receiving Social Security retirement benefits was 65. That was the retirement age at which a worker would be entitled to receive his or her full benefit. However, in January, 2000, the Social Security Administration began the long-planned phase-in of a higher "normal" retirement age. The age increase is to be accomplished gradually, over a 22-year period. As the following table shows, younger workers will have to work longer for full benefits.

#### PHASE - IN SCHEDULE FOR INCREASED "NORMAL" RETIREMENT AGE

Workers born in . . .	Can retire with full benefits at . . .
1937 and earlier	65 years
1938	65 years, 2 months
1939	65 years, 4 months
1940	65 years, 6 months
1941	65 years, 8 months
1942	65 years, 10 months
1943 to 1954	66 years
1955	66 years, 2 months
1956	66 years, 4 months
1957	66 years, 6 months
1958	66 years, 8 months
1959	66 years, 10 months
1960 and later	67 years

Importantly, the foregoing change in "normal" retirement age affects only Social Security retirement benefits, not eligibility for Medicare benefits, which begins at age 65.

### ISSUE #2: Are Retirement Benefits Reduced for "Early" Retirement?

Workers cannot receive any Social Security retirement benefits until they reach age 62. However, workers who file for retirement benefits at ages 62, 63 or 64 will receive a reduced benefit. For example, workers who retired at exactly age 62 in 1999 received only 80.0% of the amount they would have received had they waited until normal retirement age (65 years, at that time) --- and the benefit amount stayed at that reduced level even after they reached their applicable normal retirement age.

However, for workers born in 1938 or later, who are subject to the advancing "normal" retirement age noted above, benefits will be reduced even more if they retire early. When the phase-in to a "normal" retirement age of 67 is complete, as referred to above, workers may still retire early at age 62, but they will receive only 70% of their full benefit.

### ISSUE #3: With Repeal of the Retirement Earnings Test, Should the "Retiree" Consider Re-Employment?

Suppose a worker "retires" at full retirement age and begins receiving Social Security retirement benefits, but then starts working at another job (part- or full-time). Before year 2000, that could have caused a reduction in the worker's retirement benefits.

Specifically, working seniors between the ages of 65 and 69 lost \$1 of benefits for every \$3 of earnings above a particular earnings limit. For example, the earnings limit for year 2000 had been pegged at \$17,000. (There never was an earnings test for retirees age 70 and over).

All of this changed on April 7, 2000, when the President signed into law a bill which ELIMINATED the Social Security earnings test for working seniors between the ages of 65 and 69, retroactive to January 1, 2000.

As noted earlier, workers may retire "early" between the ages of 62 and their applicable full retirement age. Importantly, however, the earnings test remains for those who retire "early."

A related point to remember is that employees who return to the workforce after they have begun collecting Social Security benefits, will be subject to withholding for Social Security and Medicare taxes on their retirement wages, just like all other employees. Withholding of tax is not suspended just because they are receiving Social Security benefits.

### ISSUE #4: What Can Be Gained By Delaying "Retirement"?

Individual benefit amounts vary depending on the worker's lifetime earnings covered by Social Security. As noted earlier, if a worker decides to retire early, those benefits will be reduced by a specific amount. However, the opposite is also true. By delaying retirement, an individual will receive a higher benefit amount than if he or she had retired at age 65 (or the applicable "normal" retirement age).

Under Social Security rules, an individual's benefit is increased by a certain percentage each year that he or she delays ending work and claiming benefits. The credit gradually increases (based on the individual's date of birth) to a rate of 8% per extra year worked for the youngest employees who take later retirement. There is no boost in benefits for years worked past age 70.

#### ANNUAL CREDIT FOR DELAYED RETIREMENT

Workers born in . . .	Can receive a boost in benefits of . . .
1929-1930	4.5%
1931-1932	5.0%
1933-1934	5.5%
1935-1936	6.0%
1937-1938	6.5%
1939-1940	7.0%
1941-1942	7.5%
1943 and later	8.0%

For example, Peter was born in 1937, so he could have retired at age 65 in 2002 and collected his full benefit. Based on Peter's earnings record, his monthly Social Security benefit at age 65 was \$1,200. Looking at the table above, we see that Peter's annual credit for delaying retirement is 6.5%. So, if he had waited until the following year to retire, his monthly benefit would have increased to \$1,278. If he waited until age 70 to retire, his monthly benefit would be increased to \$1,590 per month. And, there also would be annual cost-of-living adjustments applied to the benefits paid in those and future years.

### ISSUE #5: Social Security Retirement Benefits Are Taxable For Some Retirees

When a Social Security recipient has income in addition to his or her Social Security benefits, the benefits may be subject

to income tax. The higher an individual's other income, the higher the tax on the Social Security benefits.

The precise amount of taxable Social Security benefits depends on the amount of the retiree's other income and the amount of his or her benefits. For these purposes "other income" is adjusted gross income (wages, pension, dividends and taxable interest, minus IRA contributions) plus tax-exempt interest. The income tax calculation is progressive. Some workers may not have to pay income tax on any of their benefits, and no one has to pay tax on all of his or her benefits. This potential income tax liability should be anticipated by retirees, who may request withholding on benefits using Form W-4V for the Social Security Administration, or make their own quarterly estimated tax deposits.

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### **GARNISHMENT ORDERS: A Command Which Employers Should Not Ignore**

Employers should be knowledgeable about garnishment orders. Garnishment is a procedure through which a court may require an employer to withhold an amount from employee wages to satisfy an outstanding debt to a third party. The third-party creditor initiates this legal action against the employee, using the employer essentially as a debt-collection agent.

Garnishment orders have rules DIFFERENT from child support orders. While a garnishment order seeks to liquidate a specific debt, child support orders set up a mechanism which provides an on-going succession of deductions for the support of a child or other family dependent. Also, the maximum deduction amounts for child support orders usually are considerably greater than those for garnishments.

Both Federal and state laws govern garnishment orders, generally setting a limit on the amount of the employee's wages that may be withheld at one time, and restricting the power of an employer to discharge an employee who is the subject of a garnishment order. Federal law supersedes all state garnishment laws except those where the state law is more favorable to the employee, such as one imposing lower limits on the amounts that may be withheld.

The Federal Consumer Credit Protection Act (CCPA) restricts the maximum amount that may be garnished. For a creditor garnishment, the weekly amount withheld may not exceed the lesser of:

- 25 percent of the employee's *disposable* earnings, or
- The amount by which an employee's *disposable* earnings exceeds 30 times the current Federal minimum wage (30 x \$5.15 = \$154.50).

When pay periods cover more than one week, multiples of the weekly restrictions should be used to calculate the maximum amounts that may be garnished.

Generally, an employee's "disposable" earnings are equal to the employee's gross earnings minus deductions required by state or Federal law. Payroll tax deductions are an example of the latter. Importantly, the definition of "earnings" subject to creditor garnishment orders may differ among states, and compared to the Federal definition.

Some states authorize the employer to withhold and retain an "administrative fee" to cover the employer's costs in complying with the creditor garnishment order. While some of these states allow the administrative fee to be taken from the garnishment deduction amount, other states permit a separate deduction for this purpose.

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### **IF THE EMPLOYER IS A PARTNERSHIP ...**

This form of business entity indicates a relationship between two or more persons who join to carry on a trade or

business, with each person contributing money, property, labor or skill, and each expecting to share in the profits or losses of the business.

There are several advantages to the partnership form of entity. The legal requirements and expenses are fewer than those involved in forming a corporation. Compared to the sole proprietorship, a partnership makes it possible to obtain more capital and to tap into more skills. Also, partnerships have more freedom from government control and special taxation than the corporation.

On the other hand, the partners are personally responsible for the debt of the business, which may have to be satisfied from their personal assets. A partnership is not a separate entity --- profits must be included in each partner's individual tax return according to their percentage of interest in the business. Partners are not paid through the payroll of the firm, but usually receive a periodic "draw" in anticipation of the distribution of business profits. The partner will pay income tax and Self-Employment Tax on the profits received from the business. Like the sole proprietorship, the partnership terminates upon the death or withdrawal of a general partner, unless the partnership agreement provides otherwise.

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### **MICHIGAN, WEST VIRGINIA AND WISCONSIN INCREASE MINIMUM WAGE RATES**

Beginning on 10/1/2006, **Michigan** will make the first of three increases to their state minimum wage rate.

--- effective **10/01/2006**:

the regular rate increases from \$5.15 to \$6.95 per hour

--- effective **7/01/2007**:

the regular rate increases from \$6.95 to \$7.15 per hour

--- effective **7/01/2008**:

the regular rate increases from \$7.15 to \$7.40 per hour.

However, for tipped employees in **Michigan** there will be no change in the maximum tip credit amount when the regular minimum wage rate is changed. Therefore, on the above dates, the minimum cash wage for tipped employees will increase from \$2.65 to \$4.45, \$4.65 and \$4.90, respectively. Regardless of the foregoing changes in the regular minimum wage rate, the Training/Youth rate will remain unchanged at \$4.25 per hour.

Starting 7/01/2006, **West Virginia** will also make the first of three increases to their state minimum wage rate:

--- effective **7/01/2006**:

the regular rate increases from \$5.15 to \$5.85 per hour

--- effective **7/01/2007**:

the regular rate increases from \$5.85 to \$6.55 per hour

--- effective **7/01/2008**:

the regular rate increases from \$6.55 to \$7.25 per hour.

For tipped employees in **West Virginia**, on those dates the maximum tip credit will increase from \$1.03 to \$1.17, \$1.31 and \$1.45, respectively. Therefore, on those dates the minimum cash wage for tipped employees will increase from \$4.12 to \$4.68, \$5.24 and \$5.80, respectively. The Training/Youth minimum wage rate increases on 7/01/2006 from \$4.25 to \$5.15 per hour, but remains unchanged on 7/01/2007 and 7/01/2008.

As of 6/01/2006, the **Wisconsin** regular minimum wage rate will be increased from \$5.70 to \$6.50 per hour. For tipped employees, the minimum cash wage rate will remain unchanged. However, the maximum tip credit will be increased from \$3.37 to \$4.17 per hour. The Training/Youth minimum wage rate will be increased from \$5.30 to \$5.90 per hour.

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