



## TIMING

### Q. Are there any implications for the *time of the year* I retire?

A. Yes. If you are a School Retirement Plan participant, you will qualify for one year of creditable service after you work 1000 hours within a school year 7/1 – 6/30). You will receive fractional credit for the portion of the year worked based on 1/1000 of a year credit for each hour worked.

The timing of the receipt of the final check you receive may have tax implications. The final check will include any wages due for actual days worked or leave taken, plus the payoff for any unused vacation leave (any age) and sick leave (age 55 or older). The final check is usually processed within a couple weeks from your last day of employment, as long as your final timesheet is submitted and approved on a timely basis. This lump sum payment can trigger a couple of tax considerations: (1) the withholding rate for the check may increase due to the increased amount of payment; and (2) when combined with your regular wages or retirement income, may put you into a higher tax bracket for that year.

For both the State and the School plans, your first retirement distribution, or lump payment, will be processed no sooner than 60 days after your termination date, provided that all of the required paperwork has been received. If no other income is being received during this period, it helps lessen the impact of the leave payoff.

### Q. Does the *exact date* on which I retire make a difference?

A. Leave accrual, vacation payoff, and insurance coverage are three factors influenced by the exact date on which you choose to retire. (1) If you complete all of the working days of the calendar month, you receive the full month's accrual for sick and vacation leave. If not, accruals are pro-rated based on the percentage of days you worked or used paid leave. (2) By retiring on or before December 30<sup>th</sup>, you will be paid for 100% of your accrued vacation leave, even if your balance exceeds 280 hours. If you retire on December 31<sup>st</sup> or later, and your vacation balance exceeded 280 hours on December 30<sup>th</sup>, your vacation balance, and subsequent payoff, would be reduced to 280 hours.

### Q. What steps can I take to lessen the tax bite on my sick leave, vacation leave or compensatory time payout? What other deductions are made?

A. Defer income. You can defer the payout into your Deferred Compensation Plan account provided you complete and submit a DCP Change Form prior to the calendar month in which you would otherwise receive such amounts. As long as you are under the applicable annual limit, you can defer the total amount of the check, as long as you have enough to cover items such as insurances, flex, and other deductions.

For employees paid on a monthly basis, and retiring at or near the end of the calendar year (i.e., shortly before 12/31 or shortly after 1/1), it is permissible to pay out unused vacation (up to 280 hours) and/or unused sick leave on the last monthly payroll check. It is also permissible, in order to ensure correct calculations, to delay some or all of the unused sick and/or vacation leave until the start of the next calendar year, to be paid by an interim check (i.e., not regular payroll and not direct deposit). If this is desired, the employee should submit a request in writing to Human Resources by the 10<sup>th</sup> of December.

Override of the federal withholding rate. Unpaid wages, vacation pay, and accumulated unused sick leave paid upon retirement (age 55 or older) are subject to federal and state income tax withholding. A federal income tax flat rate of 25%, rather than the amount per the Federal withholding tables, may be used at the employee's request.

State withholding rate. The current state income tax withholding rate for unpaid wages, vacation payoff and accumulated unused sick leave paid upon retirement is 5.0%. However, if no regular wages have been paid in the calendar year in which the vacation and sick leave payment is made, tax withholding on the vacation and sick leave payment must be computed as if it were a regular wage payment made under a miscellaneous payroll period.

Social Security withholding. Unpaid wages and vacation leave paid to the employee upon retirement are subject to Social Security withholding. Payments for accumulated unused sick leave are also subject to Social Security withholding if the employee is retiring due to age as opposed to disability. Payments for accumulated sick leave made to employees who retire due to a disability are excluded from Social Security wages.

Retirement withholding. If an employee is enrolled in the State retirement plan at the time of retirement, any payment made for unpaid wages, vacation pay, and accumulated unused sick leave is subject to retirement withholding. If the employee is enrolled in the School retirement plan, payment for vacation pay and accumulated unused sick leave is not subject to retirement withholding.