

The Pension Trust

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Final Paycheck Tricks

As you near retirement there are some tricks to keep in mind regarding the Deferred Compensation (DC) Plan and your taxes. But... first a disclosure - the Pension Trust cannot give tax advice, and you should consult with competent tax advisors as you plan your financial affairs.

Deferred Compensation Plan: Your employer's DC Plan is a "457" plan for tax-deferred savings. It is like 401(k) plans and traditional IRAs. If you are not already saving in the DC Plan, you really should consider it. Nationwide Retirement administers the DC Plan and you can call Loren Farfan at 818/642-8191.

Deferred Compensation Plan Annual Contribution Limits: Your paycheck deferrals into the DC Plan are voluntary. The IRS limits on 457 Plan contributions are currently \$19,500/year or \$26,000/year if you are age 50 or over. If you are nearing retirement and have not maximized your DC Plan deferrals in the past, you can do a 3-year "Special Catch-Up" deferral with a \$39,000/year maximum. These limits include any employer matching contributions you may be eligible for depending on your bargaining unit. Call Loren Farfan at Nationwide at 818/642-8191 to calculate your eligibility for these Catch-Up contributions.

Final Paycheck – Accrued Vacation and Sick Leave lump sum payout: When you retire, you may have a lot of accrued vacation and sick leave that gets paid to you in a lump sum on your final paycheck. This lump sum is taxable income, and it can mean you pay a lot of taxes on it. If you want to defer the taxes on some portion of this accrued leave payout, you can change your DC Plan deferral amount on just that Final Paycheck. Keep in mind that the Final Paycheck will include Social Security and Medicare withholding on the full amount so you can't defer all of it into the DC Plan.

For example: if you are deferring \$300/paycheck into the DC Plan and you retire July 1st, you may have already put in \$3,900 for the year. If you are getting \$20,000 in accrued leave payout on your last check, you could do a one-time increase in your DC Plan deferral amount at the last pay period to \$10,000 or more and still be well below the annual limit of \$19,500 or \$26,000. This increase would lower your tax withholding substantially on that last paycheck. Contact Holly Morgan in the SLO County ACTTC office. Holly can advise you on what you have deferred into the DC

Plan so far for the year, estimate what your last paycheck will be after a change to your deferral, and set up your Final Paycheck increased DC Plan deferral.

December Retirement - Final Paycheck payout: Just like the Final Paycheck increase to your DC Plan deferrals discussed above, a year-end retirement can double-up on your available deferrals to save even more on taxes. If you retire at the end of the year, you may have already done DC Plan deferrals up to the maximum for that year. But a Final Paycheck that includes December 31st, with the large sum of accrued leave payout, isn't actually paid until the next tax year. It may be possible to defer the entire annual limit of \$19,500 or \$26,000 (minus any employer matching contributions) into the DC Plan with that one Final Paycheck if the final payout is large enough (SS and Medicare withholding still apply). Likewise, contact Holly in the ACTTTC office to see if this tax planning move might work for you.