



## Ask the Biz Brain

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My employer is offering "voluntary" retirement to many of us "over 50" gang. In reviewing the retirement calculation, we discovered the company is lowering our retirement pay by what they call a small Social Security deduction. Is this legal?

Thanks for your advice.

-- Retiring Reluctantly

Yes, it's legal, and pretty common. Your company is using a formula to calculate your pension that combines your projected Social Security earnings with your company pension benefits.

This is called "Social Security Integration" and about half of all companies actually use it, says Marnie Aznar, a certified financial planner and principal with Aznar Financial Advisors in Morris Plains.

She says there are two different approaches to integration. "One approach to integration is known as "offset," she says. "It directly takes Social Security benefits into account by reducing pension benefits for each dollar in Social Security benefits received." The maximum pension reduction is half the annual Social Security benefit.

The other approach to integration is known as the "step-rate approach." Aznar says it involves two benefit percentages: the first, or base rate, is a percentage that applies to earnings up to the integration level, typically set at or below maximum earnings that are subject to Social Security tax in a given year (\$87,900 in 2004). The second, or excess rate, is the percentage applied to earnings at and above the integration level.

These are complex calculations and you should consult with a financial adviser and your human resources department.

Kenneth Shapiro, a certified financial planner and CPA in Hazlet, says it may be a hardship for the employee to leave prior to age 62 because the employee may be dependent on having to receive both their pension and Social Security benefits upon retiring.

"If a company wants to encourage them to leave prior to this age, they need to find a way to help fund the gap between actual retirement date and when Social Security starts," Shapiro says.

-- Karin Price Mueller

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