

Response to Questions on the *FY 2013 Carryover Review*

Request By: Supervisor McKay

Question: What are the different impacts of bonus and base salary adjustments on take-home pay and retirement benefits?

Response: Under the County's three retirement ordinances, premium pay, such as a bonus, is not included as "creditable compensation" and therefore is not included in the calculation for determining retirement benefits. As such, neither the County, nor the employee, is required to pay retirement contributions on bonuses. As a result, bonuses are less expensive for the County to implement than base salary adjustments. Additionally, employees will see a greater impact to their take-home pay with a bonus rather than a salary adjustment as they do not have to pay the employee retirement contribution (which ranges from 4 to 10 percent depending on the retirement plan) on bonus pay. Additionally, the employee will see the entire benefit of a bonus at one time, while the impact of a salary adjustment is spread throughout the year. From a long-term perspective, however, bonuses are not as beneficial to employees because the increase is not added to base pay and does not impact retirement benefits.

There is no significant differential between bonuses and salary adjustments from a tax perspective. Bonuses are considered supplemental wages, and taxes are withheld at flat rates of 25 percent (federal) and 5.75 percent (state), plus applicable Social Security and Medicare taxes. However, bonuses are treated no differently than regular wages when determining an individual's total tax liability at year-end. If an employee's wages are subject to a tax withholding rate in excess of the employee's tax liability, the employee may claim a refund on his or her individual income tax return for the year he or she received the wages. Because each employee's tax situation is unique, it is not feasible from an administrative standpoint to provide a bonus which would result in each employee receiving the same net dollar amount.

The cost to the General Fund of a \$500 bonus for merit employees would be approximately \$6 million. Employees would experience a net increase in take-home pay of between \$308-\$339 (take-home pay for Police Officers would be higher as they do not pay the 6.2 percent Social Security tax). Because of the one-time nature of bonuses, there would be no impact to the FY 2015 budget.