



Benefits Administration Letter

Number 11 - 106

Date: August 2, 2011

Subject: Temporarily Decrease in the Social Security Employee Tax Rate

Purpose: The purpose of this Benefits Administration Letter (BAL) is to provide information about the temporary decrease in the Social Security employee tax rate for employees under the Civil Service Retirement System-Offset (CSRS-Offset) and the Federal Employees Retirement System (FERS) during 2011.

Background: The "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" provides that during 2011 the Social Security employee tax rate will be temporarily decreased from 6.2% to 4.2%.

The temporary reduction in the Social Security tax rate will not affect the employee retirement contribution rates for employees under the Civil Service Retirement System (CSRS), CSRS-Offset, or the Federal Employees' Retirement System. As a result, CSRS-Offset and FERS employees will see their payroll deductions decrease by 2% up to the 2011 Social Security maximum taxable income of \$106,800 (unchanged from 2010). CSRS-Offset employees pay the "full rate" retirement deductions on the portion of the amount of pretax items such as pretax FEHB deductions. The full rate for CSRS-Offset employees is unchanged during 2011.

Example 1: Amanda Jones, a CSRS –Offset employee, earns a yearly salary of \$136,771 for 2011. She will reach the Social Security maximum taxable limit before the end of the year. During the 2011 tax year only, Ms. Jones' Social Security employee tax rate will be temporarily reduced. Payroll will deduct 4.2 % for Social Security taxes and the usual .80% for CSRS retirement deductions. Each pay period contributions on the "pretax dollar" portion of her salary will be based on 7% (the "full rate").(See BAL 05-306, CSRS Withholdings for CSRS-Offset Employees) The pay period after Ms. Jones reaches the Social Security taxable limit (\$106,800), payroll will begin deducting the "full rate" retirement deductions of 7% on all her earnings.

Example 2: Eldon Brown, a FERS employee, earns a yearly salary of \$134,000 for 2011. Like our CSRS-Offset employee, he too will reach the Social Security maximum taxable limit before the end of the year. For the 2011 tax year, Mr. Brown's Social Security employee tax rate will be temporarily reduced. Payroll will deduct 4.2% for Social Security taxes and the usual .80% for FERS retirement deductions. The pay

period after Mr. Brown reaches the Social Security taxable limit (\$106,800), payroll will only deduct retirement contributions (.80%) through the end of tax year 2011.

What is the effect of the Social Security tax change for employees under CSRS?

Since CSRS Employees do not pay Social Security, this Social Security change does not affect them and there will be no change in their retirement deductions.

What is the effect of the Social Security tax change for employees under CSRS-

Offset? Their Social Security tax will be reduced by 2% and there will be no change in their retirement deductions.

What is the effect of the Social Security tax change for employees under FERS?

Their Social Security tax will be reduced by 2% and there will be no change in their retirement deductions.

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