

Frequently Asked Questions—Social Security Tax Exemption

Q. Do I still get the Social Security tax exemption contribution of 3.1% to my pension if I decide to continue paying Social Security taxes?

A. No, because ARUP must pay 6.2% for employees that pay Social Security tax. ARUP does not pay 6.2% for employees that opt-out, so ARUP gives half of the savings to those employees.

Q. If I opt-out of paying Social Security tax do I receive the extra 3.1% pension contribution on all of my wages?

A. No, you receive the 3.1% pension contribution on wages up to the current Social Security taxable earnings limit. Social Security does not tax wages over a certain amount. This wage limit generally increases each year.

Q. Why doesn't ARUP give the whole 6.2% employer portion back to employees?

A. ARUP uses the remaining 3.1% savings for things such as providing expanded long term disability coverage to employees at ARUP's expense, to keep the costs of other benefits low for employees and to help improve ARUP's net revenues—a portion of which are given back to employees through profit-sharing.

Q. Does this mean I can change my Social Security tax election each year?

A. Yes, you can change it in June of each year during the Social Security Tax Exemption open enrollment period. If you do not make a change during that time, your previous election will continue for the next fiscal year.

Q. What happens if I opt out of Social Security and later become disabled?

A. ARUP pays for Long-Term Disability insurance for full-time employees. If a full-time ARUP employee becomes disabled while employed with ARUP they do not need to worry about Social Security disability coverage. However, if an ARUP employee has opted out of paying Social Security and leaves ARUP they may not be eligible for Social Security disability. If the individual that left ARUP does not have enough credits to be eligible for Social Security disability coverage they should consider securing their own Long-Term Disability policy or ensure their future employer covers them.

Q. What happens to my Social Security retirement benefits if I opt out of Social Security?

A. Your Social Security retirement benefits will decrease if you do not continue to pay Social Security tax. To be eligible for Social Security benefits, you must work and pay Social Security taxes for at least 40 quarters before you retire. Once you have worked the 40 quarters, you will always be eligible for Social Security retirement benefits. The amount of the benefit you receive is based on a complicated formula. For simplicity, think of it as a function of your average earnings. If you stop paying Social Security tax, you will start having quarters with no contributions. This

will lower your average reported earnings and therefore, the amount of your Social Security retirement benefit when you retire. To see your estimated SS benefits at retirement, sign-in or create an online SS account at www.ssa.gov.

Q. If I opt-out of paying Social Security taxes, how does it affect Medicare benefits?

A. Your eligibility to receive Medicare benefits is not affected. Social Security taxes and Medicare taxes are separate. ARUP will continue to withhold Medicare tax, which is 1.45% of your compensation.

Q. How does opting-out of Social Security affect Medicaid benefits?

A. Opting-in or out Social Security does not affect eligibility for Medicaid benefits.

Q. How can I know what is the right choice for me?

A. It is always a good idea to consult a financial advisor when making important financial decisions such as this. In addition, it is recommended that you visit the U.S. Social Security Administration website at www.ssa.gov to learn more about Social Security and how opting out will impact your benefits.