

*Please distribute this informational release to all appropriate payroll or finance officials within your organization.*

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John P. McCarty, Secretary**

**Edgar C. Ross, Controller  
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## *According to Doyle...*

A number of questions have raised concerning the application of employer-sponsored health insurance and Medicare. Below is a summary of how state government handles the situation for its employees. This is a very good example that may be adopted by other governmental employers.

Before the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) was enacted, employers were permitted to coordinate their health care coverage for employees 65 and over with benefits provided by Medicare. Employer plans, therefore, usually supplemented coverage for certain services and supplies that Medicare did cover or did not pay in full.

According to the state Personnel Cabinet, TEFRA changed all that. Medicare, since 1982, will supplement employer group health programs and will pay benefits on a secondary basis only if the employee elects to be covered under an employer-sponsored health insurance plan. The employee may select an employer-sponsored health insurance plan as primary coverage during the working years from age 65, with Medicare providing supplemental protection.

Or, the employee may choose Medicare as the only source of health insurance coverage, but the employee must waive any coverage by an employer-sponsored health insurance plan.

State Personnel Cabinet representatives said that eligible employees must sign up for Medicare Part A three months prior their 65<sup>th</sup> birthday even if retirement at age 65 is not being planned. Medicare Part A is free and may help pay some of any inpatient costs not covered by the employer-sponsored plan. Medicare Part B requires payment of a monthly premium and these benefits would be of limited value if the employee continues to be covered by the employer sponsored health insurance plan. Therefore, if an employee intends to continue working past age 65, they may want to consider deferring Medicare Part B.

Should an employee opt for Medicare as the source of health insurance coverage, no participation in an employer-sponsored program is permitted. As mentioned above, Medicare Part A is free, but Medicare Part B is not. Medicare Part B covers physician's services, surgery, medical services and supplies, lab tests, etc. Neither Medicare Part A or Part B pays for prescription drugs, eyeglasses, dentures, hearing aids, routine physical checkups and related tests, according to the state Personnel Cabinet.

More information on the state's handling of TEFRA is available from Lesia T. Layson of Health Insurance Branch, Personnel Cabinet, at 888/581-8834 (toll free) or 502/564-6534.

I hope everyone has a very enjoyable holiday season and a problem free Y2K.

Patrick L. Doyle, Director  
Division of Social Security

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*The Commonwealth of Kentucky does not discriminate on the basis of race, color, national origin, sex religion, age or disability in employment or the providing of services and will provide, upon request, reasonable accommodation including auxiliary aids and services necessary to afford individuals with disabilities an equal opportunity to participate in all programs and activities.*

# Part-time Exclusion Confusion

A number of governmental employers and boards of education have recently listened to alternative retirement propositions aimed at part-time employees. As usual, things are not always as they seem. There exists in the world of government payroll officials two separate—but relevant—definitions of a “part-time”.

One definition is applicable when determining qualified retirement system participation under mandatory social security for an employee not covered under the employer’s Section 218 Agreement. *In this case, the Internal Revenue Service considers a part-time employee as one who normally works 20 hours or less per week.* This definition is generally used to determine if the employee’s participation in the retirement system must meet additional criteria. (See the section on Mandatory Coverage in the Kentucky Governmental Employer Manual available directly from the Division of Social Security or from the division’s web site.)

The second definition is applied to an optional exclusion from social security coverage for part-time positions under the employer’s Section 218 Agreement (providing voluntary coverage for employees) with the Commonwealth of Kentucky. *Here, the definition of a part-time position is one that does not normally require services in excess of 200 hours per calendar year.* It is important to note that the “position” is the controlling factor, not the amount of work performed by an employee.

Many governmental employers and boards of education did not select as part of their Section 218 Agreement the coverage exclusion for part-time positions; therefore, those entities must provide social security coverage and withhold the FICA taxes from their covered employees in part-time positions. **This is not optional and cannot be superceded by any alternative retirement plans from an outside source.**

Those governmental employers and boards of education that did opt to the part-time positions coverage can provide the alternative retirement plan coverage for their part-time positions, if they so desire. The section 218 part-time definition (i.e. a position that normally requires less than 200 hours per calendar year) must, however, be applied to determine those employees not covered for social security and, therefore, eligible to participate in the alternative retirement plan.

# Guidelines for Withholding on Substitute Teachers

What is the FICA tax withholding status of a Kentucky Teachers Retirement System (KTRS) retiree or County Employee Retirement System (CERS) retiree that returns to work at a Board of Education as a substitute teacher?

The following three-part checklist generally determines social security and Medicare (FICA) coverage for Kentucky governmental employees. FICA coverage is determined by these rules and not by an employee’s option. Social security benefit rules are similar to the FICA withholding requirements.

1. Is the employee performing service in a position covered under the employer’s Section 218 Agreement?

*If the position is not covered by a Section 218 Agreement, proceed to Item 2. If the position is covered by a Section 218 Agreement, both social security and Medicare must be withheld, and you can ignore the next two steps, as they do not apply to this employee.*

2. Is the employee a participating member of a qualified retirement system as defined in IRC Section 3121(b)(7) and associated regulations?

*If the employee is not a participating member of a qualified retirement system, both social security and Medicare must be withheld. If the employee is such a member, the employee is exempt from only the social security portion of FICA. Proceed to Item 3 to determine the employee’s status for Medicare withholding.*

3a. Was the employee:

- > hired after April 1, 1986, or
- > not performing regular and substantial service before April 1, 1986, or
- > not a bona fide employee on March 31, 1986, or
- > employment relationship terminated after March 1, 1986?

3b. Has the employer voluntarily elected Medicare-only coverage under the Section 218 Agreement?

*If the answer is “yes” to either condition, Medicare-only must be withheld.*

Applying the three-part checklist to social security and Medicare (FICA) coverage for substitute teachers at a Kentucky Board of Education works as follows:

- **Service performed at the Board, in a certified position, as a substitute teacher is**

**exempt from social security and Medicare withholding under the Board's Section 218 agreement.**

- An employee whose service is not covered for social security and Medicare under the Section 218 agreement and who also is not a qualified participant in a Board sponsored retirement system is generally subject to mandatory social security and Medicare taxes (full FICA) under IRC 3121(b)(7). However, IRS regulations §31.3121(b)(7)-2(d)(4) include rehired annuitants in the definition of a "participant" of a public retirement system. A rehired annuitant is an employee who is a former participant in KTRS or CERS, who has recently retired from service with the Board and who either is in retirement pay status or has reached the normal retirement age. A rehired annuitant is also a KTRS or CERS retiree who has retired from service with another Kentucky political subdivision that participates in KTRS or CERS.

**Accordingly, a substitute teacher is a rehired annuitant and not subject to social security taxes (See next paragraph for Medicare status) if they are retired, drawing a pension from KTRS or CERS and performing service as a substitute teacher in a certified position.** (Caution: Service performed by a KTRS or CERS retiree in any classified position such as a substitute janitor or a bus driver is covered by social security and Medicare (full FICA) under the Section 218 agreement.)

- **Service performed by a substitute teacher, who is exempt from social security withholding under the Section 218 agreement and IRC 3121(b)(7), is subject to Medicare only taxes.** See Revenue Ruling 86-88.

The statute and regulation citations are available from the Division's web site at <http://www.state.ky.us/agencies/finance/depts/ss/divss.htm>.

## A Reminder from the SSA

*Employers who file 250 or more Forms W-2 must report on magnetic media unless granted a waiver by the Internal Revenue Service. Magnetic media filers must use Form 6559 (Transmitter Report and Summary of Magnetic Media Filing) and, if necessary, Form 6559-A (Continuation Sheet for 6559). A Form W-3 is not used when filing with magnetic media.*

*Acceptable magnetic media are 1/2-inch tape, 3480 cartridges and 3 1/2-inch or 5 1/4-inch diskettes. There should be an identifying label on each reel, cartridge and diskette. They should be placed with the appropriate Form 6559 and 6559-A in boxes with enough padding to prevent damage in transit. Each diskette should be inserted in a protective sleeve prior to boxing. Paper clips, rubber bands or staples should not be used.*

**Do not send any Form W-3 accompanying any magnetic media reports.**

## New on the Division of Social Security Web Site

<http://www.state.ky.us/agencies/finance/depts/ss/divss.htm>.

The following items for the year 2000 are now available:

- Form W-4--Changes the amount of federal income tax withholding from wages
- Form W-5--Earned Income Credit advance payment certificate
- Circular E--Employer wage reporting instructions
- IRS Notice 1036--Early release of federal income tax and AEIC tables

# 2000 Social Security Facts and Figures

The wage base for social security in the year 2000 is \$76,200. The full amount is taxable for Medicare purposes.

The social security tax rate is 6.2 percent on the employee's taxable wages up to the maximum amount that is established each year by the Social Security Administration. The Medicare tax rate is 1.45 percent on the employee's taxable wages. Medicare wages paid prior to January 1, 1994 are subject to a maximum wage base established by the SSA. The total taxable wages paid on and after January 1, 1994, are subject to the 1.45 percent Medicare withholding.

The election worker exclusion is adjusted each year to reflect changes in the economy. The SSA will announce the new threshold amount each fall.

<b>Social Security Tax</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Employee rate & Employer rate	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Maximum wages	\$62,700	\$65,400	\$68,400	\$72,600	\$76,200	*
*Projected maximum						\$79,000

## **Medicare Tax**

Employee rate & Employer rate	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
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## **Miscellaneous Information**

Earnings required for one quarter coverage	\$640	\$670	\$700	\$740	\$780
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Exempt amounts under annual earnings test:

Under age 65	\$8,280	\$8,640	\$9,120	\$9,600	\$10,080
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Age 65-69	\$12,500	\$13,500	\$14,500	\$15,500	\$17,000
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No limit for those 70 and older	No limit	No limit	No limit	No limit	No limit
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Avg. monthly Social Security benefits for individuals	\$724	\$749	\$770	\$785	\$804
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Avg. monthly Social Security benefits for couples	\$1,220	\$1,261	\$1,293	\$1,316	\$1,348
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Annual increase in benefits	2.60%	2.90%	2.10%	1.30%	2.40%
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Government Control Employee	\$108,200	\$108,200	\$110,700	\$110,700
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Expiration of statute of limitations	4/15/2000	4/15/2001	4/15/2002	0/15/2003	4/15/2004
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Election worker exclusion	\$1,000/yr	\$1,000/yr	\$1000/yr	\$1,000/yr	\$1,100/yr
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