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A Newsletter of the Lehigh Valley Hospital Center

Update

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Special Issue

The Return to Social Security

Unless you celebrated some special event on April 20, 1983, you probably don't remember it. But because of something that happened in our nation's capital, that day will have an impact on all of us for a long time.

April 20, 1983, is the day when President Reagan signed the Social Security Act Amendments of 1983 into law. And with the stroke of that pen, your retirement system was changed.

Why? Because this packet of amendments, designed to save the Social Security System, includes a requirement that all nonprofit institutions, previously allowed to have their own retirement plans, must join the Social Security System on January 1, 1984.

The Hospital Center, along with other hospitals and other professional groups, has fought hard to get this provision changed. But it looks now as though those efforts are not going to succeed.

As a result, it is expected that as of January 1, 1984, we will no longer be contributing to the National Security and Retirement Program (NSRP). Rather, we will again be contributing to the Social Security System established by the Federal Insurance Contributions Act (FICA).

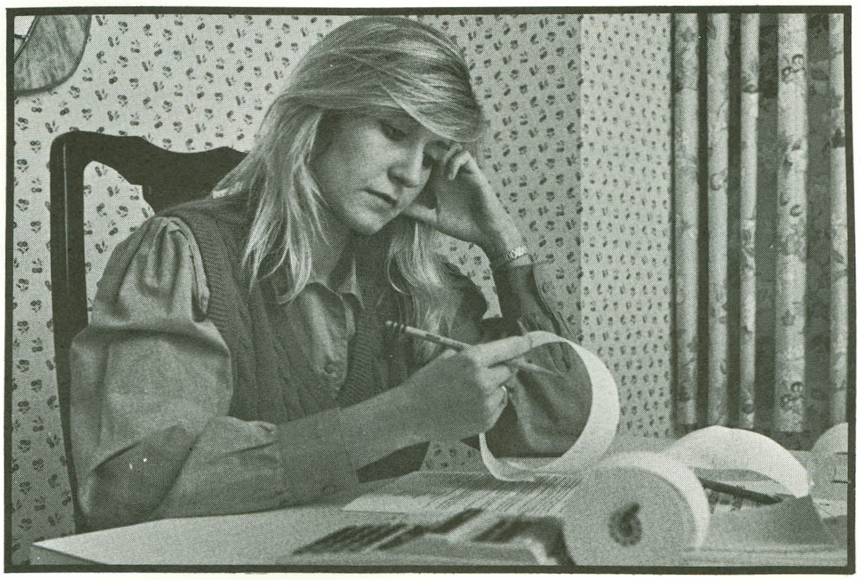
What does all of this mean to you? What impact will it have on your biweekly take-home pay? What will happen to the money that you have already contributed to NSRP? What about the other benefits which were made available to you when we pulled out of Social Security and set up NSRP?

This special issue of Update is devoted to answering these questions. At the same time, the staff in the personnel office (Ext. 2658) is there to help with any questions which you may have.

You, your money, and TSA's

What's going to happen to the money which I have paid into retirement since we left Social Security in 1981? That's probably the question asked most often since the news broke about our return to Social Security, and rightly so. It's your money, and you need to play a part in deciding what's going to happen to it.

But before you make that decision, it's important that you understand where your money has been for the past two years. When the Hospital Center pulled out of Social Security in 1981, tax sheltered annuity accounts (TSA's) were established for each employee. Since then, you have been contributing 6.65% of your pay to your account. In addition, once you completed one full year of employment here, the Hospital Center began to contribute an additional 3.85% to your account.



Which option is best for you?

This account is yours; you are the sole owner. And as we return to Social Security, the decision about what to do with your money is yours to make. However, before making that decision, there are some things that you need to know about TSA's.

In effect, your NSRP tax sheltered annuity is a savings account. But it's a special savings account with a very specific purpose and with income tax advantages which apply only as long as the account is used for that purpose. The purpose of your TSA is to set aside a part of your income today to use as retirement income later.

How does a TSA benefit you? In a number of ways.

The money that you put into a TSA is taken out of your pay before your federal income tax is calculated. This reduces your gross pay, the figure used to calculate your income tax, so you pay less in taxes now.

In addition, the money put into a TSA earns interest the entire time that it is in the account. Normally interest income is taxed when it's earned. But not with a TSA. As long as this interest income is left in the TSA account, you don't have to pay federal income tax on it.

The theory behind a TSA is that you are in a much higher tax bracket now than you will be when you retire. So if you wait until retirement to start drawing the money out of your TSA, it will be taxed at a much lower rate than would be the case if you paid the tax on that same money now.

You say retirement is a long way off and you would rather have the money now? Well that's certainly one of your options, but think hard about it first.

The money in your TSA is tax sheltered, not tax exempt. If you withdraw the money, you lose the shelter. You will have to pay the income tax on the money at your current tax bracket.

In addition, your TSA has built in penalties to discourage early withdrawal. These penalties are tied to your TSA because early withdrawal defeats the purpose of the account.

So if you take your money now, not only will it be taxed at a higher rate, but you will also lose some of your interest to the payment of penalties. The decision about what to do with your money is a difficult one. It's a decision that deserves some serious thought.

The best course of action will be different for different people depending upon individual circumstances. So consider all of the options open to you before you decide.

Your money / Your choice — The options

So it's your money and the choice is yours to make. But what are the choices? Well, there are three options open to you.

1. *Leave the money alone*

While you won't be able to make any more deposits to your present TSA account after January 1, 1984, you don't have to take the money out. You can leave it in the account where it will remain tax sheltered and where it will keep earning tax sheltered interest.

The fact that you leave your money in your present TSA account now doesn't mean that you can't change your mind later. While it may not be a good idea to withdraw the money now because of the taxes you would have to pay, that could change.

In the future you could have a period when you're not working for some length of time due to the birth of a child or a return to school on a full time basis. This would reduce your income and your tax bracket. You could then decide to withdraw your money and pay much lower taxes on it. Or, you could be buying a house sometime in the future. This would give you a large new tax write-off to offset the income from your TSA.

Advantages

- *Your money stays tax sheltered*
- *Your money earns competitive interest*
- *The interest earned is tax sheltered*
- *You don't have to pay any penalties*
- *Your money is available to you later*
- *Annual statements will continue*

Disadvantage

- *You can't make any more contributions to your account after January 1, 1984*

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2. *Roll the money over*

A TSA offers you a lot of advantages. So many of you may want to keep putting a part of your pay into a TSA through payroll deductions.

While you can't make any more deposits to your present TSA account after January 1, 1984, you can start a new TSA. Then you can add to this new TSA through regular payroll deductions.

To start this new account, you can take the money in your present TSA and roll it over (transfer it) into your new account. And while you will have to pay the penalty associated with closing your existing TSA, you can transfer your money without paying any income tax on it.

If you decide now to leave your money where it is, you can change your mind later and roll it over into a new TSA. Even though you are doing this later, you still won't have to pay taxes when you transfer the money.

Advantages

- *You can continue to add money to your TSA*
- *Your money stays tax sheltered*
- *Your money earns competitive interest*
- *The interest earned is tax sheltered*
- *You gain more flexibility with your new TSA contract*
- *You have a voice in how your money is invested and the interest it earns*
- *You pay the contract penalties for closing your current TSA before the amount increases*
- *Annual statements will continue*
- *You insure added income after you retire*

Disadvantages

- *You will have to pay a penalty for closing your current TSA*
- *If you are close to retirement, the penalties associated with transferring your money may not be worth it*

Please see Options—page 4

3. *Take your money now*

This is your money and if you want to take it after January 1, you can. But remember, if you take the money now, you're going to have to pay the federal income tax on it.

And that's going to take some planning on your part. Why? Because you will get the money from your TSA in 1984 and it will be included as a part of your 1984 income. But the tax on that income won't be due until you file your 1984 tax return. And that isn't filed until 1985.

Advantage

- *You have your money now and can do what you want with it*

Disadvantages

- *You lose the tax shelter on both the contributed money and the interest*
- *Federal income taxes will have to be paid*
- *The taxes on the money won't be due until 1985. If you don't allow for this you may be caught short*
- *Taking the income now could raise your present tax bracket*
- *You lose the supplement to your retirement income*

Confused? Help's available

As we said earlier, it's not an easy decision. There's a lot to consider. And if you're feeling a bit confused about what to do at this point, you're certainly not alone. Well, help is out there if you want it.

The Hospital Center has made arrangements with H.C. Copeland, Inc., a firm specializing in financial planning and TSA's, to make a member of their staff available to you. This TSA specialist will meet with you and review your individual situation. You are also welcome to bring your spouse or whomever else you want along to this meeting.

With the representative from H.C. Copeland, you will then be able to work through some of the decisions facing you. Is taking your money out of your present TSA a good idea for you now? Will a rollover to a new TSA help you or hurt you? Is a TSA even a good savings idea for you?

This service is offered to you free of charge and can be arranged through the personnel office (Ext. 2658). Any of you who decide to take your money out or roll it over into a new TSA must meet first with the representative from H.C. Copeland. The purpose of this meeting will be for you to review the options available and to sign an option selection form.

Social Security and your paycheck

One of the first places where you will notice a change after we re-enter the Social Security system is in your paycheck. And since that little slip of paper is very near and dear to all of us, we thought we should point out the changes that you'll see.

One of the things that you will notice is the disappearance of the NSRP deduction. Those of you who choose to continue putting some of your pay into a new TSA account will see that deduction in the box on the right side of the pay stub where you now see the NSRP deduction.

Another change you will notice is the deduction on each paycheck for FICA taxes. This is your contribution to the Social Security system. While we were in NSRP, this line on your paycheck was blank.

You will also see a slight increase in the percentage of your pay going to retirement. Under NSRP, 6.65% of your pay was taken out for retirement. Under Social Security, 6.7% will be deducted.

Finally, you will see an increase in the amount of federal income tax taken out of your pay. This is because Social Security is not tax sheltered and NSRP was. Remember, under NSRP, your federal income tax was calculated after the deduction for NSRP. So your tax was calculated on a lower base pay figure. Under Social Security, your federal income tax will be calculated before your retirement deduction. So your tax will be calculated on a higher base pay figure.

More than retirement is effected

While we tend to think first of retirement when we hear Social Security or NSRP, there's more than that involved. In addition to retirement benefits, both Social Security and NSRP also provide disability and survivorship (life insurance and survivor income) benefits. And just as the return to Social Security means a change in the retirement system, it means a change in these benefits as well.

Before the hospital went into NSRP, Social Security provided some of your disability and survivorship benefits. But levels of coverage differed depending on your age, sex, marital status, number of dependents, and length of time in the Social Security System. So the Hospital Center supplemented these benefits. Each of you got a group life insurance policy with the Massachusetts Mutual Life Insurance Company. In addition, the Social Security disability benefit was supplemented so that full-time employees were guaranteed 50% of their salary from the 131st day of disability until age 65.

When the hospital left Social Security, you were promised that the benefits you had under that system would be at least matched under NSRP. Not only were they matched, in most cases they were increased.

You were given a second life insurance policy with the Mutual Benefit Life Insurance Company. Why two policies? Under Social Security some of you had life insurance coverage from two sources, Social Security and the hospital provided Massachusetts Mutual policy.

In addition, under NSRP you were given disability coverage without a waiting period. And the percentage of your pay that you would receive under disability was increased to 60%.

Finally, your family was given survivorship benefits. Your spouse was guaranteed 20% of your salary until remarriage or until age 65. Your surviving child or children were also guaranteed an additional 20% of your salary until age 19 (age 22 if in college).

How was it possible to improve these benefits like this? Because with the change to NSRP, the hospital no longer had to make a contribution to the Social Security System. Using the money that in the past was paid to Social Security, the hospital was able to buy better benefits through private insurance companies.

So what happens now that we have to return to Social Security? The benefits will have to change. The Hospital Center will again have to direct the money that was used to purchase these increased benefits into Social Security. And once again, you will have to depend upon Social Security for some of your disability and survivorship benefits.

Since Social Security provides you with some life insurance, the Hospital Center will be canceling one of your life insurance policies.

You should think about whether this change makes it necessary for you to change beneficiaries on your remaining Hospital Center supplied policy. In addition, new employees will again have a waiting period (three months) before they are eligible for disability coverage.

Perhaps you were wondering

Why do we have to go back into Social Security when we're happy in NSRP?

Because of a set of laws called the Social Security Act Amendments passed by Congress in 1983. These laws, designed to save the ailing Social Security System, include a requirement that all nonprofit institutions re-enter Social Security.

Does everybody now out of the system have to re-enter?

No. Certain groups of government employees hired before the end of this year can stay out. But all new government employees hired after the end of the year will be in the Social Security System. Unfortunately, the law didn't include a similar grandfather clause for employees of nonprofit institutions such as the Hospital Center. We all have to re-enter.

Is there any chance that the law will be changed?

Probably not. This hospital, many other hospitals, and a number of health care professional organizations have been fighting hard to change the law. They haven't been successful and it doesn't look like that will change now.

Please see Questions—page 6

DISABILITY AND SURVIVORSHIP BENEFITS

PROVIDED BY HOSPITAL CENTER

Long Term Disability Benefit

Before NSRP	During NSRP	After NSRP
(Full-Time Employees) - Enrolled after sixth month of employment here - Once enrolled, eligible for 50% of salary from 131st day of disability until age 65 (Part-Time Employees) - No disability benefit provided by hospital	(Full-Time and Permanent Part-Time Employees) - Immediate enrollment - Eligible for 60% of salary from 131st day of disability until age 65	(Full-Time Employees) - Enrolled after third month of employment here - Once enrolled, eligible for 60% of salary from 131st day of disability until age 65 (Part-Time Employees) - No disability benefit provided by hospital

Survivorship Benefit

Before NSRP	During NSRP	After NSRP

(Full-Time Employees)
- Enrolled after sixth month of employment here
- Life insurance equal to annual salary
(Part-Time Employees)
- Enrolled after sixth month of employment here
- Life insurance in the amount of $2,000
	(Full-Time and Part-Time Employees)
	- Two life insurance policies
	- Policy No. 1
	  - Immediate enrollment
	  - Life insurance equal to annual salary
	- Policy No. 2
	  - Enrolled after six months of employment here
	  - Life insurance equal to annual salary (full-time) or in amount of $2,000 (part-time)
	- 20% of salary to surviving spouse until age 65 or remarriage
	- 20% of salary to any surviving child or children until age 19 (22 if in college)
		(Full-Time Employees)
		- Enrolled after sixth month of employment here
		- Life insurance equal to annual salary
		(Part-Time Employees)
		- Enrolled after sixth month of employment here
		- Life insurance in amount of $2,000

Note: Employees may or may not be eligible for additional benefits through Social Security. Eligibility depends upon employee's age, sex, marital status, number of dependents, and length of time in the Social Security System.

QUESTIONS (continued from page 5)

What are other hospitals doing?

Pretty much the same thing that we are doing. Many of them are still trying to get the law changed. But most of them assume that those efforts are not going to succeed. As a result, just about all the other hospitals are doing what we are doing, preparing to re-enter Social Security.

What happens to the money I've paid into NSRP?

You can leave it where it is, you can roll it over into a new tax sheltered annuity account or you can take it out. There is a detailed discussion of these options on page 3 of this issue of Update.

Why can I take my money out of NSRP now when before I couldn't?

Because of a change in the rules which govern the program. Originally the plan was set up as a retirement plan. The plan document, a legal document filed with the Department of Labor, allowed the money to be withdrawn only if you stopped working here, retired, or died. When it became apparent that we had to rejoin Social Security, the Hospital Center board changed the plan so you would also be allowed to take your money if the NSRP program ended.

When can I get my money?

After January 1, 1984.

Why do I have to wait?

Because the amendment to the plan says that you can get your money if the program ends. And the NSRP program won't end until December 31, 1983.

How long will it take to get my money?

It will probably take a little time. Normally the company handling your TSA takes six to eight weeks to process withdrawal checks. Since there is likely to be a surge of withdrawal requests, it will probably take longer.

Earlier you mentioned an interview that I have to go through to get my money. Does everybody have to go through one of these?

Anyone who wants to take their NSRP money out or who wants to roll it over into a new TSA will have to schedule an appointment through the personnel office (Ext. 2658) to meet with the representative from H.C. Copeland, Inc.

Why?

There are a couple of reasons. The decision facing you is complicated and the Hospital Center wants to be sure that you have all the information you need before you make it. Also, if you are going to start a new TSA, it can only be done through a licensed agent or broker. H.C. Copeland is the licensed broker that we have authorized to handle all TSA's going through our payroll system.

What is the form that I have to sign to get my money?

It is a form put together to present the three options open to you regarding your NSRP money. You merely select the option that you want to follow and sign the form. This form will be given to you during the interview with the representative from H.C. Copeland, Inc.

Why do I have to pay a penalty if I take my money out of my NSRP account?

The NSRP program was set up to be a retirement program which would pay you a certain amount each month after you retired. If you took the money out any other way, you were defeating the program's purpose. To discourage this, penalties were set up to apply if the money was taken out any way other than monthly payments.

Will I lose some of my money because of the penalties?

No. The penalties have nothing to do with the money actually deposited to your account by you or the Hospital Center. They apply only to the interest which you will receive. The longer your money remains where it is, the less interest income you will lose.

How much interest will I lose to penalties?

If your money has been in the account less than a year, you will receive no interest. But you will get all of the money that has actually been put into the account. If your money has been in the account for more than one but less than five years, you will get the money that was deposited plus 3 3/4% interest. After the fifth year, the penalty for taking your money out will continue to go down.

Is there any way to avoid the penalties?

Only one. Withdraw your money in monthly payments instead of as a lump sum. But the minimum time period over which you can take your money in monthly payments is five years. For many of you, this would make the monthly payment so small that it's probably not worth the effort.

Can I continue to have a TSA?

Yes. You can leave your money where it is and still start a new TSA with contributions from your pay. You can roll your NSRP money over into a new TSA and continue contributing from your pay. Or you can take your NSRP money but still start a new TSA, making continuing contributions through payroll deductions.

What happens to the personal TSA that I started unrelated to NSRP?

All of this change will have no effect upon any TSA that you started unrelated to NSRP.

Who should I contact with questions about TSA's?

Contact the personnel office (Ext. 2658). They will send you information about TSA's and schedule an appointment if you wish with the representative from H.C. Copeland, Inc.

Is there a penalty for transferring my NSRP money into a new TSA?

Yes. It is the same penalty that you would have to pay if you took your money out.

What if I leave my money where it is now but then stop working here someday?

You can leave your money where it is and still take it out whenever you want in the future. Whether or not you are still working here makes no difference. In the meantime, your money will be tax sheltered, it will continue to earn tax sheltered interest, the penalties for lump sum withdrawal will continue to go down, and you will continue to receive annual statements as long as you work here.

Earlier you said that under NSRP, 6.65% of my pay was going into my TSA but the hospital was only putting in 3.85%. I thought they were supposed to match my contribution?

The Hospital Center is matching your contribution when you look at the total NSRP program. Remember, both NSRP and Social Security involve more than just retirement. They also include disability and survivorship benefits. The employees' 6.65% was going totally into retirement while the hospital's 6.65% was split between retirement (3.85%) and providing the other benefits (2.80%).

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