Getting a Retro Pay Check - Transcript

Tom Mullooly: In Episode 121, we talk one to one.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, This is Episode 121. I'm going to talk one to one with you, especially if you work for the Port Authority, and you have heard about retro pay coming your way in 2019.

We've been getting a lot of calls from folks, just over the last few days, about whether it makes sense to basically zero out your contributions to deferred compensation as you start the year, and then get it all out in your retro paycheck.

We have a couple of reasons why we're not crazy about that strategy, and I'll just outline them for you here quickly in this video. The first is that we don't know exactly when this retro pay is going to hit. We've had some people that tell us it's coming in April.

We've had other people tell us February. We had someone tell us that it's coming January 2nd. That looks like that's really not going to happen. But at some point in early 2019, it looks like these checks are going to come through. I think your payroll department will have the definitive date, and I'm sure everybody will know in advance.

But there's a few reasons why we don't like people tinkering with the amounts that they're contributing, or not contributing, to their deferred comp. The first is, and the biggest question that we've been getting from folks is, "Is there some kind of tax benefit to have all of my contributions come out of my retro paycheck?"

No. The answer is, "No."

To us, it doesn't matter if it comes out in two-week installments over the course of a year, or if it comes out in two-week installments, and then you max out when you get your retro check. It doesn't really matter in terms of tax benefits to you, so it's important to know that.

I don't know if this is going to be classified as a bonus. One thing you should know is that the IRS has declared in 2018, don't know about 2019 yet, but in 2018 if you receive a bonus, the IRS requires that 22% of your income get withheld in taxes. So you may want to check with payroll on that. There's two other reasons why we don't like this idea. The first is, tinkering with the amount that you're withholding. One of the warnings that you get on the deferred comp website is they'll tell you, "Hey, this change in your payroll won't take effect for two to three pay periods." So understand that if you're going in, and you're trying to adjust your contribution rates, you may run into trouble, and you may miss the entire window. We would encourage you not to do that.

The second thing is that, and I think this is really important, and speaks to what we talk about all the time in these podcasts and videos, market's down. There's no surprise about that. I would rather see money that's being socked away for retirement, an event that's 20, 30, maybe 40 years away for some of our viewers, take your contributions that come out of your paycheck every two weeks, and buy some of these funds that you're invested in at lower prices. It makes much more sense. When the market comes back, you'll have a bigger gain than the fund even posts on its own.

So there's a lot of reasons why we're not in favor of this, but if you still have questions, you can call us at (732) 223-9000.