



Strength. Service. Commitment.

## Taxation of Retirement Benefit Payments

Fact sheet for retired members



Generally, tax withholding applies to payments made from pension plans. Consult a tax professional for advice concerning any distributions from SDCERA. Detailed information regarding pension income and tax withholding is available from IRS *Publications 505* and *575*.

Your SDCERA retirement benefit payment is subject to federal income tax withholding and, if you are a resident of California, California income tax withholding. You may wish to consult a qualified tax professional concerning any distributions from SDCERA. SDCERA does not give tax advice and does not have the expertise to discuss tax implications of your particular circumstance. Detailed information on the taxation of retirement benefits may be obtained from Internal Revenue Service (IRS) *Publications 505* and *575*, and in the instructions for IRS *Form 1040*. You may request IRS publications and forms by calling 800.TAX.FORM or download at [www.irs.gov](http://www.irs.gov).

Use this fact sheet to understand how to instruct SDCERA to withhold income tax and to determine the nontaxable part of your retirement benefit payment.

### Federal and state income tax withholding

The *Tax Election for Monthly Retirement Benefit* form allows you to give instructions to SDCERA on federal and California state income tax withholding. The State of California is prohibited from taxing retirement income of any individual who is not a resident. You must instruct SDCERA in writing not to withhold California tax from your retirement benefit if you live outside of California. If you live in the U.S. or a U.S. possession, you may elect not to have federal taxes withheld from your retirement benefit. If you elect not to withhold federal or California state income tax, or if you do not withhold enough tax, you may be responsible for payment of estimated tax.

Portions of your benefit may be tax exempt. After-tax employee contributions and health insurance allowances are nontaxable. If you are receiving a service-connected disability retirement benefit, all or a portion of your benefit may be nontaxable. Read the *Disability Retirement* booklet available from SDCERA for information about the tax treatment of your service-connected disability retirement benefit.

A *Tax Election for Monthly Retirement Benefit* form is included with your service retirement packet. If you do not return the tax election form with your retirement application, federal and California income tax will be withheld from your retirement benefit, beginning with the first payment, as if you were a married person claiming three withholding allowances. SDCERA cannot refund any tax withheld from your monthly retirement benefit.

You may revoke your tax election or change the rate of withholding at any time and as often as you wish. Tax election forms are available at [www.sdccera.org](http://www.sdccera.org) or from SDCERA. Changes become effective with the next available payroll cycle after the date of receipt.

Each year at the end of January, SDCERA will send you the IRS *Form 1099-R* which reports the total amount of income paid and tax withheld during the preceding calendar year.

### Nontaxable employee contributions

Employee contributions paid to SDCERA through regular payroll deductions before January 1, 1997, were made on an after-tax basis. These after-tax contributions are called your “cost” in the retirement plan. The IRS allows you to recover your cost on a tax-free basis over a period of time that approximates an average retired member’s life expectancy in retirement. After January 1, 1997, contributions are made on a pre-tax basis and do not add to your cost.

The amount of your after-tax employee contributions can be found on your *Service Retirement Calculation Summary Estimate* or contact SDCERA for this information. Use the worksheet below to determine the tax-free portion of your retirement benefit.

# Worksheet

Calculating the tax-free portion of your retirement benefit		
	Example	You
<b>1</b> Enter your total after-tax employee contributions from your <i>Service Retirement Calculation Summary Estimate</i> .	<ul style="list-style-type: none"> <li>John retires at age 60; his spouse is 55</li> <li>Unmodified benefit option</li> <li>\$36,000 after-tax contributions</li> </ul> <b>\$36,000</b>	\$ _____
<b>2</b> Enter the appropriate number from the <i>Months to Recover Cost</i> table.	<b>360</b> (John’s age 60 + spouse’s age 55 = 115 combined age)	_____
<b>3</b> Divide line 1 by line 2.	$\frac{\$36,000}{360} =$ <b>\$100</b> <b>This is the tax-free portion of John’s monthly retirement benefit</b>	\$ _____ /month of your benefit will be tax-free

**BOOKLETS**

- Disability Retirement
- Dividing Community Property
- Health Insurance Plans for Retired Members
- Retirement Plan
- Survivor and Beneficiary Information

**FACT SHEETS**

- Considerations after Termination
- Considerations before Purchasing Service Credit
- Deferred Membership
- Disability Retirement
- Earning Service Credit
- Health Insurance Allowance
- Health Insurance Plans
- Health Insurance Reimbursement Program
- Medicare Information for SDCERA Health Plans
- Purchasing Service Credit
- Reciprocity
- Refunds
- Retirement Benefit Options
- Retirement Plan Summary
- Rollover/Transfer for Purchasing Service Credit
- Supplemental Benefit Allowance
- Taxation of Retirement Benefit Payments

**The annual after-tax contributions that you recover tax-free will be reported on your IRS Form 1099-R each year.**

The nontaxable portion of your benefit (see worksheet) begins with your first benefit payment and continues for the number of months shown in the *Months to Recover Cost* table. The nontaxable amount remains constant, even though your monthly retirement benefit may increase due to cost-of-living adjustments. Your tax-free exclusion ends when you have recovered your total cost and your entire retirement benefit will become fully taxable.

This method for calculating the nontaxable portion of your benefit generally does not apply if you retired at or after age 75. See IRS *Publication 575* for more information.

<b>Months to Recover "Cost"*</b>			
<b>Single-life annuity</b> (payable for your lifetime only)†		<b>Joint and survivor annuity</b> (payable for the lives of two or more people) ‡	
<b>Age at retirement</b>	<b>Enter on line 2</b>	<b>Combined ages of you and your beneficiary at retirement</b>	<b>Enter on line 2</b>
55 or under	360	110 or less	410
56 – 60	310	111 – 120	360
61 – 65	260	121 – 130	310
66 – 70	210	131 – 140	260
71 – 74	160	141 and over	210

\*This table uses calculation factors from federal tax tables that are subject to change.

† You selected a single life annuity if you selected Option 1, or if you were single when you retired and selected the Unmodified benefit option.

‡ You selected a joint and survivor annuity if you selected Options 2, 3 or 4, or if you had an eligible spouse or registered domestic partner when you retired and selected the Unmodified benefit option.

This material is available in alternative formats upon request. Please contact 619.515.6800.

This fact sheet provides disclosure of certain terms and conditions of SDCERA membership and benefits available to members. It is designed to give you this information as simply and accurately as possible as of the date of issuance of this fact sheet. SDCERA is governed by the County Employees Retirement Law of 1937 (Government Code Section 31450 et. seq.) as it has been adopted and implemented by the San Diego County Board of Supervisors, the Internal Revenue Code and the SDCERA Board of Retirement. If there is any inconsistency between this fact sheet and the governing law, the law will govern. Decisions relating to the plan will be made after reference to the statutes and any resolutions, regulations and policies governing administration of SDCERA as they exist at the same time of the decisions.

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