



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* and in the instructions for IRS *Form 1040*.

Your SDCERA retirement benefit payment is subject to federal income tax withholding and California state income tax withholding if you are a resident of California. 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 them 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 any nontaxable part of your retirement benefit payment.

### Federal and state income tax withholding

The Tax Election section of the SDCERA *Application for Service Retirement* and the *Tax Election for Monthly Retirement Benefit* form allow you to give instructions to SDCERA on federal and California state income tax withholding. The State of California is prohibited from taxing the 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 do live within the U.S. or outside of California and you elect not to have federal or California state income tax withheld, or if you do not request enough tax withheld, 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.

If you do not complete the Tax Election section of your retirement application, both 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 for Monthly Retirement Benefit* 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. Service credit purchases completed through a lump-sum payment of personal funds or through payroll deduction are also made after taxes. These after-tax contributions are called your “cost” in the retirement plan. All employee contributions made after January 1, 1997, are made on a pre-tax basis, as are service credit purchases completed via rollover. These pre-tax contributions do not add to your cost.

You can find the amount of your after-tax employee contributions on your *Service Retirement Calculation Summary Estimate* or you may 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
	<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>	
1	Enter your total after-tax employee contributions from your <i>Service Retirement Calculation Summary Estimate</i> .  <b>\$36,000</b>	\$ _____
2	Enter the appropriate number from the <i>Months to Recover Cost</i> table (on opposite page).  <b>360</b> <b>(John's age 60 + spouse's age 55 = 115 combined age)</b>	_____
3	Divide line 1 by line 2.  $\$36,000 \div 360 =$ <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

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

Your after-tax contributions are returned to you over a period of time that approximates an average retired Members's life expectancy in retirement. The nontaxable amount is included in your benefit beginning with your first benefit payment and continuing 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 through 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> <sup>†</sup> (payable for your lifetime only)		<b>Joint and survivor annuity</b> <sup>‡</sup> (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.

<sup>†</sup> 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.

<sup>‡</sup> 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.) and by the California Public Employees' Pension Reform Act of 2013 (Government Code Section 7522 et seq.) as they have been adopted and implemented by the San Diego County Board of Supervisors 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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SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION  
2275 RIO BONITO WAY, SUITE 200  
SAN DIEGO, CA 92108-1685