



1099-R News

Alaska Retirement Benefit Recipients
Division of Retirement and Benefits

January 2009

Introduction to your 1099-R

Your 2008 1099-R form is scheduled to be mailed by the end of January. The form provides the details concerning the benefit distributions you received during the 2008 tax year and should be used in filing your 2008 federal income taxes.

This newsletter describes different situations that could apply to the many retirees and beneficiaries who received distributions in 2008. Not all of the situations described in this newsletter will apply to you.

We have coded your 1099-R in accordance with the tax law. However, if you feel you have received an incorrect 1099-R, considering the descriptions in this newsletter, please contact our retirement payroll section right away at (800) 821-2251 or in Juneau 465-4460.

We encourage you to call the Retirement Payroll Section at (800) 821-2251 or in Juneau 465-4460 if you have questions about the specific 1099-R form you received. To determine how your distributions may impact your individual tax situation, please call your tax consultant or the IRS directly.

Disability Benefit Recipients

All Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) nonoccupational, and certain PERS occupational disability benefit recipients will receive a 1099-R with an IRS Distribution Code of "1." This is an indication to the IRS that the distribution is an early distribution which is subject to a 10% penalty. We code the 1099-R this way because the requirement necessary to meet the federal definition of disability is far more stringent than the requirement necessary to meet the retirement systems' definition. *In this case, 1099-R coding is ruled by federal law, not the Alaska State retirement system statutes or determinations.*

Internal Revenue Code Section 72(m)(7) states, "... an individual shall be considered to be disabled if he is **unable to engage in any substantial gainful activity** by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration. An individual shall not be considered to be disabled unless he furnishes proof of the existence thereof in such form and manner as the Secretary may require."

The retirement systems do not require certification to that extent to qualify for receiving a disability benefit. Therefore, upon advice from the IRS, we code most of the types of disability distributions noted above with an IRS Distribution Code of "1."

Any benefit recipient who feels they meet the federal definition of disability can file Form 5329 to exempt their retirement distribution from the early distribution penalty. If you are uncertain how to file this form, or the implications it may have on your tax situation, you should contact your tax consultant. Form 5329 can be downloaded from the IRS's Internet website at www.irs.ustreas.gov. It should also be available where you get other IRS forms necessary to file your taxes.

1099-R Distribution Code For Normal Retirement Benefit Recipients

The IRS defines the use of Distribution Code “7” as a normal distribution from a plan when the benefit recipient is at least 59½ years old. The IRS requires the use of Code “2” (early distribution, exception applies) for normal distributions from a plan when the benefit recipient is under the age of 59½. The IRS considers a distribution prior to age 59½ to be an early distribution.

This should not affect the taxability of your distribution, so for those of you who are affected, we understand there would be no difference in the tax treatment for the two codes. If you have questions on whether it might affect your individual case, you should contact your tax consultant or the IRS.

Multiple 1099-R Benefit Recipients

The Division issues multiple 1099-R forms to benefit recipients when their status changes during the year. For example, when a benefit recipient goes from a temporary retirement benefit, such as a disability benefit, to a normal retirement benefit, the Division will issue two 1099-R forms. One 1099-R will be issued for the period when distributions were made under the temporary benefit. In the case of nonoccupational disability benefits and old-law occupational disability benefits, the IRS Distribution Code would be a Code “1.” New-law occupational disability benefits would have a Code “3” as the IRS Distribution Code. A second 1099-R will be issued for the period when distributions were made under the normal benefit, and for these, the IRS Distribution Code would be a Code “2” or a Code “7,” depending on the benefit recipient’s age (under/over 59½).

Another prominent example is when a normal benefit recipient turns age 59½ during the year. Distributions that were made before age 59½ will most likely reflect a Code “2” for the IRS Distribution Code on the 1099-R. Distributions made after age 59½ will have a Code “7” reflected.

If you are receiving multiple benefits, you may receive multiple 1099-R forms for each benefit that is affected by the situations described above.

Tax Excludable Employee Contributions

Most members who made “after-tax” contributions to their retirement account will see a taxable amount reflected in box 2a different than the amount noted in box 1. The difference will be the amount in box 5, which is the amount of your benefit that is excludable from federal taxes.

Benefit recipients who turned age 59½ during 2008 will receive two 1099-Rs. Each 1099-R will reflect a gross distribution (box 1), taxable amount (box 2a), and employee contributions (box 5) equal to the applicable period covered by the 1099-R. If you receive more than one 1099-R, the totals for each 1099-R should be combined to determine your total 2008 taxable distribution.

National Guard Naval Militia Benefit Distributions

If you take an actuarially determined lump sum distribution from the National Guard Naval Militia Retirement System (NGNMRS) and it is a direct rollover to a traditional IRA, your IRS Distribution Code in box 7 will be “G” and your taxable amount in box 2a will be zero. Any other distribution from the NGNMRS before age 59½ will have an IRS Distribution Code of “1,” and your distribution will be reported as fully taxable in box 2a. This is because the distributions do not meet the early distribution exception noted in the Internal Revenue Code, Section 72(t)(2)(A)(iv) which requires a series of substantially equal periodic payments to be made for the life or life expectancy of the member. Distributions after age 59½ will have a distribution code of “7.”

Death Benefit Distributions

If you are a survivor and receive a lump sum death benefit distribution, the IRS Distribution Code in box 7 will be “4,” and the amount reported in box 2a will be the taxable portion of your distribution. If you elect to have the distribution be a direct rollover to a traditional IRA, the distribution code will be “4G” and the taxable amount in box 2a will be zero.

If you are the survivor of a peace officer who died in the line of duty, your taxable amount in box 2a will be zero and the IRS Distribution Code will be “2” or “7” depending on whether you are under or over age 59½.

Sample 1099-R Form

| | | | | | | |
|---|--|--|---|--|---------------------|--|
| Form 1099-R <input type="checkbox"/> CORRECTED (if checked) | | OMB No. 1545-0119 | | Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. | | |
| PAYER'S name, street address, city, state and ZIP code | | 1 Gross distribution \$ ① | 2008 | | | |
| PAYER'S federal identification number | | 2a Taxable amount \$ ② | Form 1099-R | | | |
| RECIPIENT'S identification number | | 2b Taxable amount not determined ③ | Total distribution | | | |
| RECIPIENT'S name, street address (incl. apt. no.), city, state and ZIP code | | 3 Capital gain (included in box 2a) \$ N/A | 4 Federal income tax withheld \$ ④ | 5 Employee contributions / Designated Roth contributions or insurance premiums \$ ⑤ | | |
| Account number (see instructions) | | 6 Net unrealized appreciation in employer's securities \$ N/A | 7 Distribution code(s) ⑥ | IRA/SEP/SIMPLE | 8 Other \$ N/A % | |
| 1st year of desig. Roth contrib. N/A | | 9a Your percentage of total distribution N/A % | 9b Total employee contributions \$ N/A | | | |
| 10 State tax withheld \$ N/A | | 11 State/Payer's state no. N/A | | 12 State distribution \$ N/A | | |
| 13 Local tax withheld \$ N/A | | 14 Name of locality N/A | | 15 Local distribution \$ N/A | | |

Copy B
Report this income on your federal tax return. If this form shows federal income tax withheld in Box 4, attach this copy to your return. This information is being furnished to the Internal Revenue Service.

Department of the Treasury - Internal Revenue Service

- ① Gross Distribution—This is the gross amount of all checks disbursed for the period January 1, 2008, to December 31, 2008.
- ② Taxable Amount—This is the amount the Division of Retirement and Benefits reports to the IRS as your taxable benefit. If this box is blank, please read the explanation of box 2b (see ③ below).
- ③ Taxable Amount Not Determined—If there is an "X" in this box, the Division of Retirement and Benefits has not determined what portion of your benefit is taxable. When filing your tax return, you must report what is taxable. For this determination, we recommend that you consult a tax accountant or review IRS Publication 575—*Pension and Annuity Income*.
- ④ Federal Income Tax Withheld—This is the amount of federal taxes which we withheld from your benefit for the year 2008. If after completing your taxes you determine that you would like to adjust this amount in the future, please submit a Form W-4P to the Division of Retirement and Benefits. (Available from the IRS or on the Division's website at www.state.ak.us/dr/b, under Forms/Brochures.)
- ⑤ Employee Contributions or Insurance Premiums—This is the amount of your benefit which is excluded from federal taxes. The amount in box #5 is calculated using the Simplified Method, as described in IRS Publication 575—*Pension and Annuity Income*.
- ⑥ Distribution Code—Depending on such factors as the type of benefit received and age, all members will receive an IRS Distribution Code in box #7. The code does affect how the benefit will be taxed. To determine how the distribution code may impact your individual tax situation, please call your tax consultant or contact the Internal Revenue Service.

Special Note:

The address shown on the 1099-R which you will receive will be the current address of record which the Division of Retirement and Benefits has on file when the forms are processed in January. If this address is incorrect, please submit a written request with your signature to change the address. If you need to make a change to your address, tax withholding, or direct deposit, the required forms can be downloaded from the Division's website at www.state.ak.us/dr/b.

Check Mailing Dates

The Division of Retirement and Benefits mails checks monthly to benefit recipients (retirees, disabled members, and survivors). Benefit payments will be mailed or electronically deposited on the following dates in 2009:

| | |
|-------------|--------------|
| January 23 | July 24 |
| February 25 | August 25 |
| March 25 | September 25 |
| April 24 | October 23 |
| May 22 | November 25 |
| June 25 | December 23 |

If your monthly check does not arrive within 15 days of the mailing date, please let us know (in writing) so we can issue a new check. However, please wait 15 days as we cannot issue a new check until then.

Contact the Division right away if you have received your check and then it is lost or stolen.

When writing to the Division, don't forget to . . .

- ✿ print your full name and address on your letter;
- ✿ include your social security number and your daytime telephone number; and
- ✿ sign and date any request for information or action.

When calling the Division,

please have your social security number ready so we can quickly direct your call to the proper person.

The **1099-R News** is published by the Alaska Division of Retirement and Benefits.

Teresa Kesey, Retirement Payroll Supervisor
Debbie Knutson, Editor

Alaska Division of Retirement and Benefits

State Office Building
333 Willoughby, 6th floor
PO Box 110203
Juneau, AK 99811-0203
Fax: (907) 465-3363

TDD for the hearing impaired: (907) 465-2805

Telephone: (800) 821-2251 or in Juneau 465-4460

www.state.ak.us/drb

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The Alaska Department of Administration complies with Title II of the 1990 Americans with Disabilities Act (ADA). This publication is available in alternative communication formats upon request. To make necessary arrangements, contact the ADA Coordinator for the Division of Retirement and Benefits, at (907) 465-4460 or contact the TDD for the hearing impaired at (907) 465-2805.