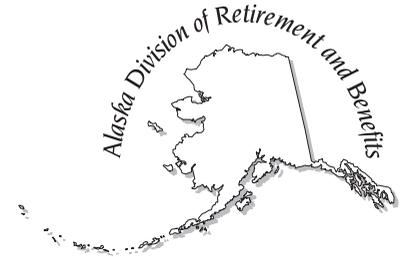


# Taxes and Your Benefits

## Understanding the Taxes and Exclusions That May Apply to Your Benefits



### Retirement Benefits

Retirement benefits are taxable by the federal government upon receipt. However, a portion of your monthly benefit may be tax excludable.

The federal government requires the tax excludable amount be calculated based on your total contributions which have been taxed (Chart I) and a factor which takes into account your life expectancy. If a survivor's benefit will be payable after your death, your spouse's life expectancy will also be taken into account. This results in a payout of your tax excludable contributions over your expected lifetime.

Chart II shows those contributions and interest which have not been taxed and are subject to federal income tax.

You will be notified of the tax excludable portion after your final contributions are received from your employer. If you have not received notice within 90 days, contact the Division of Retirement and Benefits.

### Local and State Taxes

Although Alaska does not have a state income tax, members who live outside Alaska may be required to pay state and local income taxes on benefits they receive. **Check with a tax expert in your area for more information.**

### Disability Benefits

PERS nonoccupational disability benefits and TRS disability benefits are taxable as income upon receipt. In addition, since the PERS and TRS definitions of disability differ from that of the Internal Revenue Service, the benefit is subject to the 10% IRS penalty for early distribution. A disabled member may seek an exception to the penalty by filing IRS Form 5329 when submitting their tax return.

PERS occupational disability benefits are generally excluded from taxation and penalty. Members who entered PERS prior to July 1, 1977 have different options for occupational disability, some of which are taxable. Contact the division for more information if you are in this category.

Occupationally disabled peace officers and firefighters who elect to continue their disability benefit calculation at normal retirement will go from nontaxable to taxable status. This is because the disability benefit becomes a normal retirement benefit, and no longer meets IRS rules regarding occupational disability.

**Contact your tax advisor for more information.**

#### Chart I. Tax excludable contributions that have been taxed.

- **PERS Members** — Mandatory employee contributions made before January 1, 1987, indebtedness principal and interest payments,\* and any voluntary contributions.
- **TRS Members** — Mandatory employee contributions made before January 1, 1991; indebtedness principal and interest payments.\*
- **JRS Members** — Mandatory employee contributions made before July 1, 2002; and any indebtedness principal and interest payments.
- **EPORS Members** — All mandatory employee contributions; and any indebtedness principal and interest payments.

\*Made with after-tax dollars.

#### Chart II. Contributions & interest subject to federal income tax.

- **PERS Members** — Mandatory employee contributions made after December 31, 1986; and all interest earned on employee contribution accounts.
- **TRS Members** — Mandatory employee contributions made after December 31, 1990; and all interest earned on employee contribution accounts.
- **JRS Members** — Mandatory employee contributions made after June 30, 2002; and all interest earned on employee contribution accounts.
- **EPORS Members** — All interest earned on employee contribution accounts.

## Survivor's Benefits

Monthly survivor's benefits are taxable by the federal government upon receipt. However, a portion of the monthly survivor's benefit may be tax excludable depending on the member's circumstances at the time of death.

The tax excludable amount is calculated based on your total taxed monthly contributions and factoring your spouse's life expectancy. The tax excludable contributions are then paid out over your spouse's lifetime.

## Tax Excludable Employee Contributions

Most members who made "after-tax" contributions to their retirement account will see a taxable amount different than their total gross distribution. The difference will be the amount of your benefit that is excludable from federal taxes.

### Check with a tax expert for information specific to your retirement benefit.

During the tax year in which you turn age 59½, you will receive two 1099-Rs. You will notice a different code in box number seven (7) for each one. Each 1099-R will reflect a gross distribution, taxable amount, and employee contributions, equal to the applicable period covered. When you receive more than one 1099-R, the totals for each should be combined to determine your total taxable distribution.



**Please direct your questions about taxes to the IRS or a tax expert.  
The Division of Retirement and Benefits cannot give tax advice.**

## Withholding Certificate for Pensions or Annuity Payments

You may change your withholding option at any time by submitting a new W-4P to the division.

When you are appointed to receive monthly benefits, federal income tax will automatically be withheld from your benefit. If you do not send the Division of Retirement and Benefits a W-4P specifying one of the withholding options, the tax rate for a married person with three allowances will be used to determine the withholding amount. This is according to IRS regulation.

There are three withholding options available. You may:

1. Elect no withholding and pay your taxes directly to the Internal Revenue Service (IRS). In that case, you should contact the IRS about filing requirements and deadlines (line 1 of W-4P).
2. Specify your withholding allowance(s) (line 2 of W-4P).
3. Specify your withholding allowance(s) plus have an additional amount withheld (line 3 of W-4P).

## 1099-R Statement for Recipients of Distributions from Retirement Plan

Each January, you will be sent a 1099-R showing the benefit payments and federal income tax withheld from your checks during the previous calendar year.

## Noncontributory JRS Members

Judges or Justices appointed for the first time prior to July 1, 1978, do not make contributions. As members in the Judicial Retirement System (JRS), your entire monthly benefit is subject to federal income tax upon receipt.

## What Tier Am I?

Members who first entered a PERS position and were making contributions:

- **Tier I** — Before 7/1/86.
- **Tier II** — On or after 7/1/86, but before 7/1/96.
- **Tier III** — On or after 7/1/96, but before 7/1/06.

Members who first entered a TRS position and were making contributions:

- **Tier I** — Before 7/1/90.
- **Tier II** — On or after 7/1/90, but before 7/1/06.

The information included here only applies to PERS Tiers I, II, and III, and TRS Tiers I and II.

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