Service Connected Disability Retirement

The Internal Revenue Code provides that in the case of a member retired for a job related disability, the statutory amount payable is in the nature of a workers' compensation act benefit within the meaning of Section 1.104-1 (b), and that benefits received up to, but not in excess of the statutory amount are excludable from income under Section 104 (a)(1). Any amount received in excess of the statutory amount will be attributed to a regular service retirement allowance and is not excluded from income. The statutory amount of a service connected disability retirement benefit paid by VCERA is ½ of the member's final compensation.

For those members who retire with a service connected disability retirement, only the portion of the benefit paid in excess of the 50% of final compensation, plus any additional monthly supplemental benefits, will be reported in Box 1 of the 1099-R as Gross Distribution. The taxable amount reported in Box 2a will be calculated using the Special Rule as previously discussed.

Cost-of-living increases attributable to the statutory ½ of final compensation amount will be excludable from income. Increases that are attributable to amounts paid in excess of the statutory amount will be reported as income by VCERA.

Please note that if you retire with a service connected disability and elect to have taxes withheld from your monthly benefit using the tax tables, the amount withheld from your monthly check will be based on the total benefit you receive. This may result in excess withholding.

Additional Information

VCERA's staff is unable to address specific tax questions. If you have questions regarding either federal or state income taxes, please contact:

Internal Revenue Service (800) 829-1040,
Franchise Tax Board (800) 852-5711,
or consult with your personal tax advisor. You may also wish to obtain a copy of Internal Revenue Service Publication 575, "Pension and Annuity Income", or visit their website at www.irs.gov for more information on the taxation of your retirement benefit.

INTERNAL REVENUE SERVICE
800.829.1040

STATE FRANCHISE TAX BOARD
800.852.5711

www.irs.gov

VCERA
Ventura County Employees' Retirement Association

TAXATION OF YOUR RETIREMENT BENEFIT

May 2017

Ventura County Employees'
Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572

805.339.4250
Fax: 805.339.4269

www.ventura.org/vcera

General Information

All Ventura County Employees' Retirement Association (VCERA) retirees are required to select one of three tax withholding options:

- To have no taxes withheld;
- To have a specific dollar amount/ percentage withheld;
- To have taxes withheld according to tax tables based on marital status and number of exemptions

For those who elect to have their withholding based on tax tables, taxes will not be withheld unless your gross monthly retirement allowance exceeds the minimum amount listed on the tax table for your particular filing status.

If you do not choose an option, VCERA will automatically withhold taxes based on the filing status of married with three exemptions.

You may be subject to penalties assessed by the Internal Revenue Service if you do not have a sufficient amount of tax withheld.

California State Tax Information

If you live outside the State of California, no California state taxes will be withheld unless you indicate otherwise. Even though taxes will not be withheld, VCERA is required to report the benefit paid to the State of California Franchise Tax Board.

1099-R Tax Statement

Each January, VCERA will provide you with a form 1099-R containing information on the benefit paid to you by VCERA in the prior calendar year. For those persons receiving a regular service retirement or a nonservice connected disability retirement, Box 1 of the 1099-R, labeled "Gross Distribution", contains the total amount of the retirement benefit paid to you in the prior year. Box 2a, labeled "Taxable Amount", will contain the amount of the benefit that is taxable.

Calculation of the Taxable Amount of Your Benefit

For those members retired prior to July 2, 1986, the "Three Year Rule" was the primary method used to determine the taxability of an annuitant's retirement benefit. This rule allowed annuitants to take up to 36 months of their initial retirement income as tax free in order to recover their previously taxed contributions to the plan. This rule was repealed effective July 2, 1986 by the Federal Tax Reform Act of 1986.

For those members retired July 2, 1986 through November 17, 1996, VCERA uses the "Simplified General Rule", also referred to as the Safe Harbor method, to determine taxable income.

Effective for those members retired on or after November 18, 1996, VCERA uses the Internal Revenue Service "Special Rule". The Special Rule, which was part of the Small Business Job Protection Act of 1996, is similar to the "Simplified General Rule" except that the period of time for the recovery of after-tax contributions by the member was extended by the Internal Revenue Service.

In order to calculate an estimate of the taxable portion of your retirement benefit under the "Special Rule", you need to know the amount of after-tax contributions you made to VCERA during your employment. This amount will be listed on the Retirement Allowance Program summary provided to you at the time of your retirement, or can be provided to you by VCERA staff prior to retirement. Box 9b on your 1099-R, "Total Employee Contributions", lists your total after-tax contribution in the year of retirement. Each year thereafter, Box 9b will contain the balance of after-tax contributions you have left to recover. The worksheet on page three of this pamphlet can be used to make the computation of the taxable amount of your benefit.

Tax Work Sheet

1. Total annual pension received __________
2. After tax contributions made to VCERA during employment __________
3. Your age at retirement — No. of Payments

Your age at retirement	No. of Payments
55 and under	360
56 – 60	310
61 – 65	260
66 – 70	210
71 and over	160

4. Divide the amount on line 2 by the number of payments based on your age at retirement __________
5. Multiply line 4 by the number of months for which you received a benefit from VCERA for the year __________
6. Taxable amount for the year equals line 1 minus line 5 __________

Prior to the Taxpayer Relief Act of 1997, the number of payments over which a retiree could recover after-tax contributions under the Special Rule was based on the age of the member using the above table. Effective for retirements with a starting date on or after January 1, 1998, a distinction is made between single life benefit payments and those which may be made over more than one lifetime. VCERA is now required to use the following table for those members who retire with a beneficiary eligible for a survivor's continuance.

Combined ages of annuitants	No. of Payments
Not more than 110	410
More than 110, but not more than 120	360
More than 120, but not more than 130	310
More than 130, but not more than 140	260
More than 140	210

The worksheet above can be used to calculate the taxable amount of the benefit by substituting the number of payments from the above table.