



2008 Annual Training Seminar

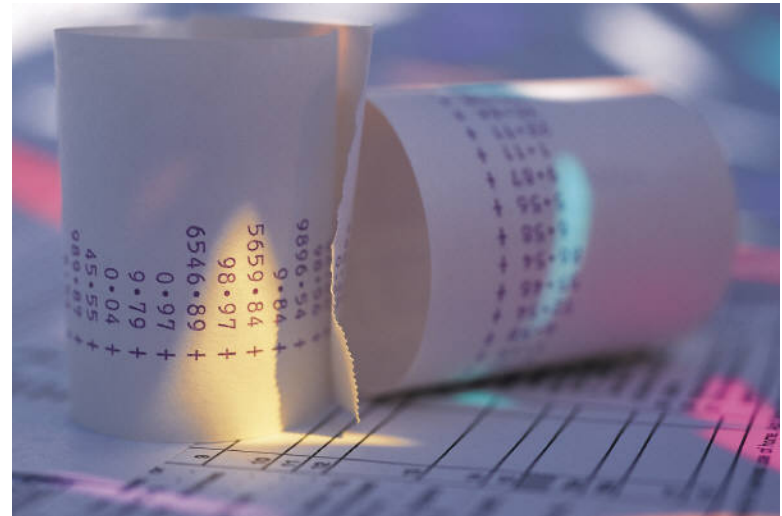
# Legal and Taxes 101

*Back to Basics*

*Texas Municipal Retirement System*

# TMRS is a Qualified, Tax-Deferred Governmental Retirement System

- ◆ What does “qualified” mean?
  - ◇ January 1, 1984
- ◆ Tax-deferred —  
**NOT TAX FREE**
- ◆ What does “employer pick-up” mean?



# Taxes Are Applied to Income

- ◆ Refunds
- ◆ Partial Lump Sum Distributions (PLSDs)
- ◆ Monthly retirement benefits (annuity)
- ◆ Rollovers (tax-deferred account — taxes are delayed but not avoided)



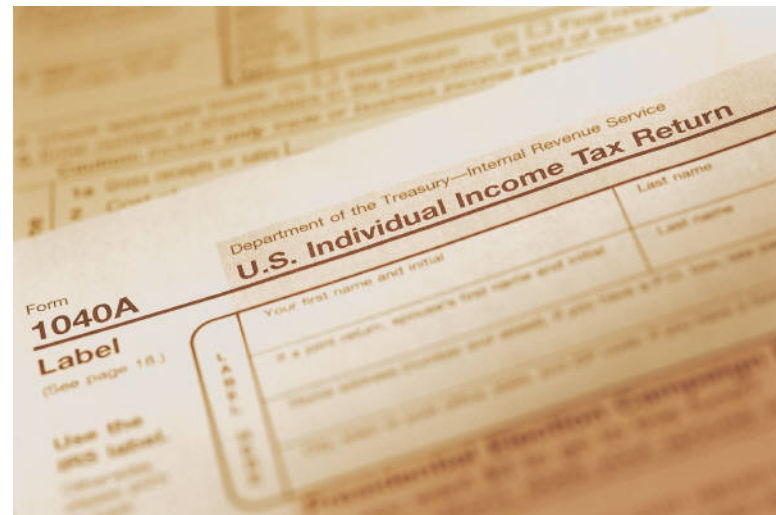
# *Monthly Retirement Annuity*

- ◆ **Retiree is in control**
  - ◇ **Retiree instructs TMRS how to withhold taxes by completing an IRS form W-4P**
  - ◇ **In January of each year, every payee is issued a 1099R for tax reporting purposes**



# Refunds and Partial Lump Sum Distributions (PLSDs)

- ◆ **TMRS is required by the IRS to withhold 20% from funds paid directly to member**
- ◆ **Member is able to roll over funds into a tax-deferred plan**
  - ◇ **This does not eliminate tax liability; only delays it**



# 10% Tax Penalty on Refunds and PLSDs

**When does the penalty apply?**

- ◆ **When funds are withdrawn (and not rolled over) from TMRS before age 59½**
- ◆ **Penalty applies to gross amount of refund or PLSD**
- ◆ **Penalty, if applicable, is calculated at time of IRS tax filing. TMRS does not withhold the 10% penalty!**
- ◆ **EXCEPTION: If employment is terminated in the year member turns 55 or older, penalty will not apply (50 for Public Safety Employees)**

# Occupational Disability Retirement

- ◆ **Why won't TMRS code a retiree's 1099R so the IRS treats it as a disability retirement for tax purposes?**




# Supplemental Death Benefit

- ◆ **Is the supplemental death benefit taxable?**
- ◆ **Does the value of this fringe benefit have to be reported as taxable wages to an employee while they are working?**



# Preparing W-2's

Safe, accurate, FAST! Use  Visit the IRS website at [www.irs.gov/efile](http://www.irs.gov/efile).  
OMB No. 1545-0008


	<b>1</b> Wages, tips, other compensation	<b>2</b> Federal income tax withheld	
	<b>3</b> Social security wages	<b>4</b> Social security tax withheld	
	<b>5</b> Medicare wages and tips	<b>6</b> Medicare tax withheld	
	<b>7</b> Social security tips	<b>8</b> Allocated tips	
	<b>9</b> Advance EIC payment	<b>10</b> Dependent care benefits	
Suff.	<b>11</b> Nonqualified plans	<b>12a</b> See instructions for box 12	
	<b>13</b> Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	<b>12b</b>	
	<b>14</b> Other	<b>12c</b>	
		<b>12d</b>	
State income tax	<b>18</b> Local wages, tips, etc.	<b>19</b> Local income tax	<b>20</b> Locality name

2007

Department of the Treasury—Internal Revenue Service

- ◆ **Box 1 - Gross wages less TMRS employee contributions**
- ◆ **Boxes 3 & 5 - Gross wages NOT reduced by TMRS contributions**
- ◆ **Box 13 - Retirement Plan**

# Example W-2

a Employee's social security number		Safe, accurate, FAST! Use  Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a> .	
b Employer identification number (EIN)		1 Wages, tips, other compensation 11,160	2 Federal income tax withheld
c Employer's name, address, and ZIP code  Jane Doe 123 Anywhere Ave. Awesome, TX 99999		3 Social security wages 12,000	4 Social security tax withheld
		5 Medicare wages and tips 12,000	6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
d Control number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Suff.		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee <input type="checkbox"/> Retiree plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b
		14 Other TMRs \$840.00	12c
			12d
f Employee's address and ZIP code			
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.
			19 Local income tax
			20 Locality name

Form **W-2** Wage and Tax Statement

2007

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

- ◆ Employee earns \$1,000/month (gross wages)
- ◆ 7% deposit rate = TMRs contribution of \$840
- ◆ Tax withholding calculated on \$11,160

- Box 1: \$11,160
- Boxes 3 & 5: \$12,000
- Box 13: Mark "Retirement Plan" box

# HELPS Provision

- ◆ Retired public safety officers may pay for their health insurance coverage from their monthly retirement annuity.



- ◆ TMRS makes direct payment to health insurance provider from retiree's annuity. **NOTE: Payments are not made on a pre-tax basis.**
- ◆ Up to \$3,000 of the payment may be deducted on the retired officer's tax return per year.

# HELPS Provision (cont.)

- ◆ **Retirees who were public safety officers at retirement – law enforcement, firefighter, or EMS\* – are eligible.**
- ◆ **Retiree’s employing city must verify status as a retired public safety employee.**
- ◆ **Call TMRS if you need more information or to request the HELPS forms.**

***\* As defined by the Omnibus Crime Control & Safe Streets Act of 1968***

# Frequently Asked Tax Questions

- ◆ **If I refund, is the 10% penalty based on gross or net amount of the funds?**

*A. On the gross amount. If the amount refunded is \$10,000, the 10% penalty would be \$1,000. The net amount of the refund would be \$8,000 after the 20% withholding.*

- ◆ **Is my TMRS contribution tax deductible?**

*A. No, TMRS contributions are pre-tax funds and are not eligible for a tax deduction.*





# Questions About Taxes?

# DIVORCE

**Deposits and interest earned during marriage are community property.**



# ***Member Going through Divorce...***

## ***What's First?***

- ◆ **Call a lawyer — TMRS cannot give legal advice**
  
- ◆ **Call TMRS!**
  - ◇ **“TMRS Divorce and Retirement” publication includes information that will assist member and attorney (available on Website)**



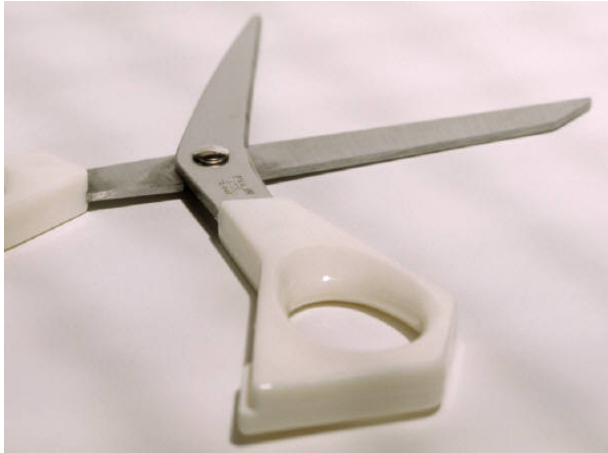
# ***What Happens to Member's Account During Divorce?***

- ◆ **Account is “flagged”**
  - ◇ **All parties will be notified by letter**
- ◆ **No payments may be issued during divorce**
  - ◇ **Includes refunds and first annuity payments**



# ***Do TMRS Benefits Have to Be Divided?***

**NO!**



- ◆ **If member retains entire benefit, divorce decree needs to state so**
  - ◇ **Suggested language available in publication**

# *How Is Benefit Divided?*



- ◆ **TMRS benefits are protected by law!**
- ◆ **A Qualified Domestic Relations Order (QDRO) is required to divide benefits**
- ◆ **TMRS will determine if an Order is qualified**
- ◆ **Publication provides sample orders and formulas used to divide benefit**

# For More Information

- ◆ Call our toll-free number: **800.924.8677**  
*For Divorce questions, ask for the Support Services Team*



- ◆ Send an e-mail to **SupportServices@tmrs.com**

# Frequently Asked Divorce Questions

- ◆ **Can an active member's former spouse receive their benefit after the QDRO is filed?**

*A. No. The TMRS benefit is paid to the former spouse at the same time and manner as paid to the member.*

- ◆ **If a divorce occurs with a division of benefit, when will my annuity be affected?**

*A. The annuity payment will continue until TMRS receives an acceptable QDRO dividing the benefit.*

- ◆ **I have a QDRO on file. Does my annual statement reflect the division of benefit?**

*A. No. The annual statements do not include any division of benefits. Please contact TMRS for an updated estimate.*



# Questions & Answers