Death, Divorce, and Taxes

Presented by
Shannon Lucero, Regional Representative
Death Benefits
Death Benefits

- Not Vested Member
- Vested Member
- Retiree
- Supplemental Death Benefit
Who Are You Helping?

- **Active Member**
  - Putting money into TMRS

- **Retiree**
  - Receiving money from TMRS
What Happens if Member / Retiree Dies?

- Not Vested Member
  - Refund of deposits and interest to beneficiary

- Vested Member
  - Beneficiary has option to retire account
  - Options depend on who and how many beneficiaries are designated

- Retiree
  - Decided by retirement plan chosen
What Options Does a Beneficiary of a Vested Member Have?

**Non-spouse beneficiary:**
- Refund (no city match)
- Lifetime or 15-year payout (with city match)
  - Immediate payments

**Spouse beneficiary:**
- Refund (no city match)
- Lifetime or 15-year payout (with city match)
  - Immediate payments or
  - Payments delayed until member would have reached 60

Spouse must make this election within 180 days
Multiple Beneficiaries — Options

For both spouse and non-spouse beneficiaries:

- Refund (no city match)
- 15-year payout (with city match)
  - Immediate payments

Beneficiaries must agree on payment option
If Member Dies Before Vesting...

- Designated beneficiary receives a lump sum refund of member’s account balance
- Beneficiary is not eligible for retirement benefits
- City match is forfeited
- If no valid beneficiary designation is on file, proceeds are paid to member’s estate

If a non-vested member dies, his/her beneficiary will be determined by the New Member Form or the Not Vested – Change of Beneficiary form.
What Is a Supplemental Death Benefit?

- The Supplemental Death Benefit (SDB) program provides a one-time payment
  - Active employees: payment equal to yearly salary
  - Retired employees: payment equal to $7,500
- Adopted by city
- Different beneficiary may be designated to receive SDB payment, but most members have the same beneficiary
Who Is Covered by SDB?

Member is covered from the day:

- City elects to participate; AND member is required to make a TMRS contribution

Coverage ends:

- The month after employee terminates employment

UNLESS...
SDB — Extended Coverage

- Members who fail to earn compensation because they are incapable of gainful employment are automatically eligible for up to 6 months from month of last deposit.
- If member requires coverage past the 6-month period, a written request is required.
Divorce
Divorce

- QDROs
- How Benefit Is Affected
- Contact Information
How Does Divorce Affect Retirement?

- What to do first?
  - Call an attorney — TMRS cannot give legal advice
  - Notify TMRS!
  - Refer to *Divorce & Retirement*, on website

- Qualified Domestic Relations Order (QDRO)
  - Required before TMRS can make payment to non-member
  - TMRS will determine if order is acceptable
  - Determines how benefit is divided

Deposits and interest earned during marriage are community property
What Will Happen?

- **Active Member**
  - Account “flagged”
    - Written request with Cause Number required
  - No funds paid until issue resolved
  - Account not separated until member retires/refunds

- **Retiree**
  - Payments to retiree continue until acceptable QDRO received
Do Benefits Have to Be Divided?

**NO!**

- Divorce decree must state so
- Suggested language in TMRS publication

**Purpose of this Publication**

For most members of the Texas Municipal Retirement System (TMRS®), their accumulated benefit is one of the most valuable assets that they own. It is very important that any divorce decree involving a member of TMRS specifically state to whom that benefit is awarded, or how it is to be divided.

Texas courts have held that the portion of a person’s retirement benefit earned during marriage is “community property”—property owned by both the husband and the wife, regardless of who “earned” that benefit. Since the portion earned during marriage is community property, a divorce decree or other domestic relations order must state whether the benefit is retained by the member or divided between the member and spouse. If the decree or order does not do...
Who Can I Call?

- Support Services: 1.800.924.8677
- Email questions to: divorce@tmrs.com
Taxes
Taxes

- Taxable Income
- PLSD, Annuity, Rollovers
- IRS 10% Penalty
- Occupational Disability
How Do Taxes Affect Member’s Account?

- **Active Member**
  - Deposits made on a pre-tax basis
  - Deposits are not tax deductible

- **Retiree**
  - Payments received are taxable income

**TMRS is a Qualified, Tax-Deferred Governmental Retirement System**
- January 1, 1984
- Growth on account is tax deferred — not tax free!
Taxable Income

- Partial Lump Sum Distribution
  - 20% withheld from any portion paid directly to member

- Rollover to tax-deferred plan
  - Taxes delayed but not avoided

- Monthly Annuity
  - Taxes withheld according to W-4P submitted by retiree
  - Reported on 1099-R
IRS 10% Penalty  When Does it 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 to IRS 10% Penalty

- If employment is terminated in the year member turns 55 or older, penalty will not apply
  - Age 50 for Public Safety Employees
- TMRS will code retiree’s 1099-R to reflect exception to 10% penalty, if applicable
Other Tax Issues

- Occupational Disability
  - TMRS benefit is not exempt from taxes
  - Definition of disability differs from IRS’ definition
Questions?