

# TMRS & CITIES

## A WINNING TEAM

**TMRS TRAINING:**

**Death, Divorce,  
and Taxes**

# 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

- ❑ Refund of deposits and interest to beneficiary

## ■ Vested

- ❑ 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

# Frequently Asked Questions

- Can I designate an alternate beneficiary?
  - A. Yes, alternate beneficiaries may be added to the Not Vested and Vested Beneficiary forms.
- What happens if I never complete the Vested Beneficiary Form (TMRS-007V)?
  - A. Vested statutes will apply. TMRS will first look for a legal spouse, then children, then any prior valid designations, and finally, the estate.
- My ex-spouse is still my beneficiary. What will happen if I die before I retire?
  - A. When a relationship status changes, the beneficiary designation is no longer valid.

# Divorce

- QDROs
- How Benefit Is Affected
- Contact Information



# How Does Divorce Affect Retirement?

Deposits and interest earned during marriage are community property

## ■ What to do first?

- ❑ Call an attorney – TMRS cannot give legal advice
- ❑ Notify TMRS!
- ❑ *TMRS 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

# What Will Happen?

## ■ Active

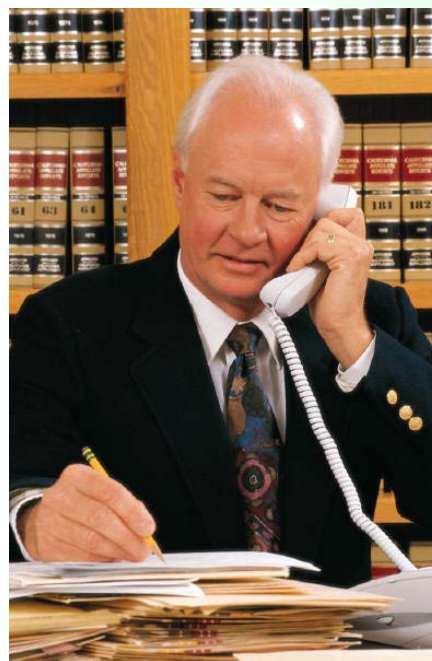
- Account “flagged”
- No funds paid until issue resolved
- Account not separated until member retires/refunds

## ■ 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

# Who Can I Call?

- Support Services: 1.800.924.8677
- Email questions to: [divorce@tmrs.com](mailto:divorce@tmrs.com)



# Frequently Asked 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.*

# Taxes

- Taxable Income
- PLSD, Annuity, Rollovers
- IRS 10% Penalty
- Occupational Disability



# *How Do Taxes Affect Member's Account?*

- TMRS is a Qualified, Tax-Deferred Governmental Retirement System
  - January 1, 1984
  - Growth on account is tax deferred – not tax free!
  
- Active
  - Deposits made on a pre-tax basis
  - Deposits are not tax deductible
  
- Retiree
  - Payments made are taxable income

# 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

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119	
		\$		2009 Form 1099-R	
		2a Taxable amount			
		\$			
		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)		4 Federal income tax withheld	
		\$		\$	
RECIPIENT'S name		5 Employee contributions / Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities	
Street address (including apt. no.)		\$		\$	
City, state, and ZIP code		7 Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other	%
		\$		\$	
		9a Your percentage of total distribution	%	9b Total employee contributions	\$
		10 State tax withheld		11 State/Payer's state no.	
		\$		\$	
		\$		\$	
Account number (see instructions)		13 Local tax withheld		14 Name of locality	
		\$		\$	
		\$		\$	
		15 Local distribution		\$	
		\$		\$	

Form 1099-R (keep for your records) Department of the Treasury - Internal Revenue Service

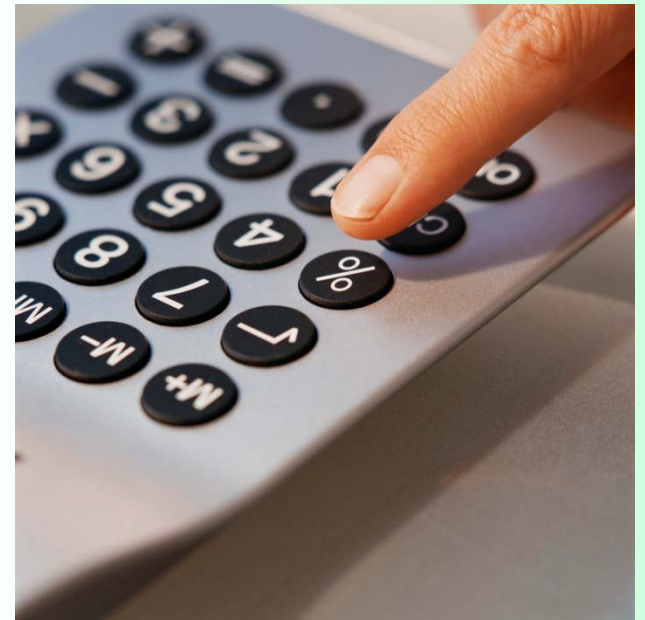
# *IRS 10% Penalty When Does it Apply?*

- 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



# Frequently Asked Questions

■ If I refund, is the 10% penalty based on the 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.*

■ How did the 2009 tax table change affect retirees?

*A. Taxes were withheld at a lower rate, but the amount owed was not lowered.*

# **TMRS & CITIES**

**A WINNING**



# **QUESTIONS?**