

Payment of Retirement Benefits

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Payment of Retirement Benefits

Because PEERS is a defined benefit (DB) plan, your retirement benefits are paid to you for life, no matter which benefit plan you choose. Your benefits are eligible for cost-of-living adjustments (COLAs) and are subject to both federal and Missouri (if you live in Missouri) income taxes.

Direct Deposit

Your PEERS service retirement, disability or survivor benefits are issued by direct deposit (also called Electronic Funds Transfer or EFT) on the last working day of each month, starting the month your retirement becomes effective. PEERS requires direct deposit of all monthly benefits.

Example

If your PEERS retirement date is July 1, all your records are complete and your final salary information is certified by your employer, your first retirement benefit payment is issued on the last working day of July. Subsequent retirement benefits are issued on the last working day of each month.

MAY						
SUN	MON	TUE	WED	THU	FRI	SAT
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

Termination Date

Effective Retirement Date

JULY						
SUN	MON	TUE	WED	THU	FRI	SAT
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

Date of First Benefit Payment

A schedule of deposit dates can be found on our website and is published annually in the PEERS retiree newsletter.

If you need to change your direct deposit to a different account you can do so by logging in to Web Member Services at www.psr-peers.org, by calling (800) 392-6848, or by completing a new *Direct Deposit Authorization* form. This form is available on our website, or by request from our office.

Minimum Distribution Requirement

Federal law requires that you must begin receiving distributions from PEERS by April 1 of the year after you reach age 70 ½, if you are no longer in PEERS-covered employment. If you fail to meet the minimum distribution requirement, you may be subject to a substantial federal excise tax.

Cost-of-Living Adjustments (COLAs)

Eligible service and disability retirees may receive cost-of-living adjustments (COLAs) on monthly benefits beginning the fourth January following their retirement date. For example, if you retire in any month in 2018, you become eligible for COLAs in January 2022. Eligible beneficiaries may also receive COLAs.

COLAs are set annually by the PSRS/PEERS Board of Trustees and are effective with the January benefit paid on the last working day of January.

The process for setting COLAs is governed by Missouri law but gives the Board some discretion. Factors evaluated by the Board when setting the COLA include:

- Changes in the cost of living reflected by the Consumer Price Index for Urban Consumers (CPI-U) for the preceding fiscal year
- The recommendation of the PSRS/PEERS' actuary

Current Missouri law states that COLAs cannot exceed 5% per year, and the total dollar amount of the COLAs in your lifetime cannot exceed 80% of your initial monthly retirement benefit.

Example

If your initial benefit amount is \$500 per month, the most you can receive in total lifetime benefit increases from COLAs is \$400 per month.

COLAs are Cumulative

The first COLA granted is based on your original benefit amount. Subsequent COLAs are calculated by multiplying your monthly benefit amount (at the time of the COLA) by the percentage of the COLA. The result over time is a compounding effect that causes the overall percent increase in your monthly benefit to be higher than the percentage you get by simply adding up the COLAs you have received over time.

Interruptions or Holds on the Payment of Retirement Benefits

There are some situations which will cause your monthly PEERS retirement benefits to stop. These situations are generally avoidable, if you are familiar with the rules for working after PEERS retirement, detailed on pages 72-80.

Service Retirees

Your **service retirement benefits stop if:**

- You work full-time after service retirement for a PEERS-covered employer in any capacity other than under the Critical Shortage Full-Time Employment Exception (see page 76).
- You work part-time or as a temporary-substitute for a PEERS-covered employer and exceed the limit on hours worked per school year. See pages 72-80 for more information on the limit on working part-time or as a temporary-substitute after retirement.

Disability Retirees

Your **disability retirement benefits stop** if, prior to reaching age 60, you:

- Return to work in any capacity for a PEERS-covered employer
- Recover from your disability (see page 61)
- Can earn a livelihood (currently defined by PEERS as earning \$18,000 or more per year)

Your **disability retirement benefits stop** if, after age 60, you:

- Return to full-time, PEERS-covered employment (not including service under the Critical Shortage Full-Time Employment Exception)
- Exceed the hourly limit on part-time or temporary-substitute employment with a PEERS-covered employer, detailed on page 73.

Income Taxes on Retirement Benefits

Your PEERS retirement benefits are subject to federal and Missouri income taxes. We cannot advise you on whether you should have taxes withheld from your benefits. However, if your tax withholding is not sufficient to meet your tax liability, you may be subject to penalties and interest charges in addition to your tax obligation. We recommend you consult with the IRS at **(800) 829-1040**, the Missouri Department of Revenue at **(573) 751-3505**, or a tax professional of your choice.

You must provide us with your income tax withholding information when you file for retirement. You may change your tax withholding online at any time by logging in to Web Member Services or by sending a ***Tax Withholding Authorization for Monthly Benefits*** form to PEERS. The tax withholding authorization form can be found online at **www.psr-peers.org** or can be obtained by request from our office.

Federal Income Taxes on Service Retirement Benefits

Under the Internal Revenue Code (IRC), service retirement benefits are taxable beginning with the first benefit. PEERS is required to withhold federal income tax from each benefit in excess of a specific amount set by the IRS each year, unless you specifically ask us not to. If the taxable portion of your benefit is less than that amount, no tax is withheld unless you direct us to do so.

- You may choose to have no federal tax withholding and can pay your taxes directly to the IRS.
- You may choose to have an amount withheld based on IRS tables using your marital status and your number of allowances.

When you retire, PEERS will inform you of the portion of your benefit, if any, which can be excluded from tax using the IRS “Simplified General Rule.” The excludable amount will remain the same until you recover your previously-taxed contributions and payments made for service purchases or reinstatements with taxable funds. The recovery of that amount is spread over your expected lifetime, and that of your Joint-and-Survivor beneficiary if you have one, as projected by the IRS. After full recovery of your previously-taxed funds, your benefits are 100% taxable.

Federal Income Taxes on Disability Retirement Benefits

Under the Internal Revenue Code (IRC), disability retirement benefits are fully taxable beginning with the first payment, unless your age at disability retirement is the minimum service retirement age as defined by the IRS.

At minimum service retirement age, any previously-taxed contributions may be excluded from taxable income with a small portion of each benefit payment possibly excludable from tax and considered a return of previously-taxed contributions. PEERS will provide this information to you with your estimate of disability benefits.

Service and Disability Retirement Benefits

Taxable	Non-Taxable
<p>The following are taxable when paid as a retirement benefit, refund or survivor benefit:</p> <ul style="list-style-type: none"> • Contributions made after June 30, 1989 • Purchases or reinstatements paid with tax-deferred rollovers • All interest credited to your membership 	<p>A small portion of each benefit may be excluded from tax and considered a return of any previously-taxed contributions. Non-taxable funds include:</p> <ul style="list-style-type: none"> • Contributions made before July 1, 1989 • Any service purchases or reinstatements paid with previously-taxed funds, such as a personal check

Example

Taxable Portion of Monthly Benefit	\$750
Non-Taxable Portion of Monthly Benefit	<u>\$ 5</u>
Total Lifetime Single Life Monthly Benefit	\$755

Should you die before completely recovering your previously-taxed contributions, any unrecovered taxed contributions at your (or the last benefit recipient's) death are allowed as a miscellaneous itemized deduction on the final return of the decedent. This deduction is not subject to the 2%-of-adjusted-gross-income limit.

State Income Taxes

According to the Missouri Department of Revenue, if you are a Missouri resident, the portion of your service or disability retirement benefits that is subject to federal tax is also subject to Missouri income tax, with certain exemptions based on your filing status and adjusted gross income.

Missouri income tax will not be deducted from your benefit payment unless you live in Missouri and authorize the withholding when you file for retirement online or by filing a ***Tax Withholding Authorization for Monthly Benefits*** form. You can change your Missouri tax withholding at any time by logging in to Web Member Services or by completing a new ***Tax Withholding Authorization for Monthly Benefits*** form available on our website or by request from our office.

- You may choose to have no Missouri tax withholding and pay your taxes directly to the Missouri Department of Revenue.
- You may choose to have a specific dollar amount withheld. This amount remains the same unless you change it.

You can also authorize Missouri income tax withholding from your PEERS benefits by filing a ***Form MO W-4P*** which can be ordered from the Missouri Department of Revenue.

Missouri Department of Revenue

PO Box 2200
Jefferson City, MO 65102-3022
(573) 751-3505

PEERS cannot withhold taxes for other states. If you notify us that your permanent address has changed to an out-of-state address, we will automatically stop Missouri income tax withholding from your benefit payments. If you live in a state other than Missouri, you should contact the taxing authority of that state for information on your PEERS benefits and state income tax.

Missouri Public Pension Exemption

PEERS is considered a qualified government plan under the Missouri Public Pension Exemption.

Individuals receiving Social Security benefits, Social Security disability benefits or benefits from a public retirement system (such as PEERS) are allowed to deduct some or all of those benefits from their adjusted gross income for Missouri tax purposes.

You must have an adjusted gross income of \$85,000 or less if single or \$100,000 or less if married and filing jointly to qualify for the maximum deduction. If your income exceeds the limit, you may qualify for a partial exemption.

Social Security recipients can deduct their entire benefit, per adjusted gross income level restrictions. Individuals receiving retirement benefits from a public plan, including PEERS, are allowed to deduct up to the maximum Social Security benefit available for that tax year. The maximum Social Security benefit available is adjusted for inflation every year at the federal level. Those individuals who receive both Social Security benefits and PEERS benefits will deduct their entire Social Security benefit first, then as much of their PEERS benefits until they reach the maximum deduction.

For more information about the portion of your PEERS benefit that may be exempt from Missouri income tax, visit www.dor.mo.gov or contact the Missouri Department of Revenue.

Missouri Department of Revenue

PO Box 2200
Jefferson City, MO 65102-3022
(573) 751-3505

Income Taxes on the Partial Lump Sum Option

The portion of a PLSO payment equal to all previously-taxed funds that were credited to a membership prior to January 1, 1987 is considered non-taxable income. If you do not have any contributions in your membership that meet this criterion, 100% of your distribution is taxable income in the year the PLSO payment is made.

If you do not rollover the taxable amount of your PLSO lump-sum payment, any portion of the payment that is considered taxable income by the IRS is subject to the mandatory 20% federal tax withholding by PEERS. If your payment occurs before you reach age 59 ½, you may also be subject to a 10% federal tax penalty in addition to the ordinary income tax owed. This penalty does not apply if you separate from service in or after the tax year in which you reach age 55.

You can choose, however, to “roll over” the funds into an IRA or other qualified retirement plan, in which case the funds would not be subject to either the 20% withholding or the 10% federal excise tax. **Taxable funds rolled over into a Roth IRA are considered taxable income in the tax year in which the rollover takes place.**

PEERS will withhold federal income taxes on taxable funds rolled over to a Roth IRA at your request.

PLSO payments may also be subject to Missouri income tax.

If you choose to have 100% of your PLSO distribution (including both taxable and non-taxable funds) rolled over into a qualified retirement plan, you should check with your financial advisor to determine if the taxable and non-taxable portions will be tracked separately. This is required by the IRS and will ensure that you are not taxed again on any previously-taxed dollars. Only one check can be issued by PEERS for rollover funds. PEERS is not required to withhold federal tax when funds are rolled over into a qualified retirement plan.

PEERS does not offer tax advice. However, we suggest that you consult a tax professional or a financial planner before making a final decision regarding the Partial Lump Sum Option.

IRS Form 1099-R

After you retire, PEERS will mail an IRS Form 1099-R to you after the end of each calendar year, indicating your total benefits for the year, the taxable portion of those benefits, the tax-free amount recovered in the year, if any (shown as employee contributions), and the amount of tax withheld during the year.

You will need this form when preparing your tax returns. If you have a professional tax advisor, we suggest you make this information available for his or her review. If you need additional copies, the last five years of your IRS Forms 1099-R can be accessed by logging in to Web Member Services at www.psrs-peers.org.

Income Tax Contact Information

PEERS staff does not offer individual tax advice or information. Questions concerning taxes should be directed to a tax professional or to the appropriate taxing agency.

Federal Taxes

The Internal Revenue Service (IRS)
(800) 829-1040
www.irs.gov

Missouri Taxes

The Missouri Department of Revenue (DOR)
(573) 751-3505
www.dor.mo.gov
Email: income@dor.mo.gov