

How the Taxable Portion of Your Service Retirement Benefit is Determined

The retirement contributions you made as an employee make up a portion of the benefit you receive each month. Contributions on which you already paid taxes are not taxed again in retirement. You already paid State taxes on all of your contributions. You paid Federal taxes on contributions made before January 1, 1989. You have not paid Federal or State taxes on the interest your contributions earned while you were working.

Each January after you retire, MainePERS sends a 1099-R form to let you know the total amount of benefits you received during the previous year. For service retirees, the 1099-R also indicates how much of your total benefit amount is subject to federal withholding taxes. If you are a service retiree, this is the figure that you need to report as taxable income when you file your federal income tax form for the year. The amount of your benefit that is subject to state withholding taxes is also shown on your 1099-R.

We follow Internal Revenue Service (IRS) guidelines to determine the taxable portion of your benefit. There are different IRS rules for the taxability of disability benefits. You can find more detailed information on IRS guidelines in IRS Publication 575.

First, determine the expected number of monthly payments. This number, set by the IRS, is based either on your age at retirement, or the total of your and your beneficiary's age at retirement, depending on the benefit payment option you chose. If you designated more than one beneficiary, base the estimated number of payments on the sum of your age and the age of your youngest beneficiary.

Full Benefit or Option 1		Options 2-8	
Age at Retirement	Number of Monthly Payments	Sum of Your and Your Beneficiary's Age at Retirement	Number of Monthly Payments
55 and under	360	110 or under	410
56-60	310	111-120	360
61-65	260	121-130	310
66-70	210	131-140	260
71 and older	160	141 or more	210

If you chose benefit payment Option 5, so both you and your beneficiary are currently receiving monthly benefit payments, multiply the estimated number of payments by the percentage of the benefit you each receive to calculate your share.

In our examples, some of the contributions have already been federally taxed (\$2,000 prior to January 1, 1989). So, the calculations for state and federal taxable amounts are different.

Full Benefit/Option 1 Sample Calculation:

Retirement Date:	March 1, 2009
Retirement Age:	62
Benefit Payment Option:	Full Benefit
Gross Benefit Amount:	\$12,000.00
Contributions as of 1/1/1989:	\$2,000 (both State and Federal taxes already paid)
Total Contributions:	\$14,000

State Calculation:

\$14,000	Taxed Contributions	\$2,000.00
÷ 260	Estimated Number of Payments	÷ 260
<u>\$53.85</u>	Non-Taxable Portion	<u>\$7.69</u>
\$1,000.00	Gross Monthly Benefit	\$1,000.00
- \$53.85	Non-Taxable Portion	- \$7.69
<u>\$946.15</u>	Taxable Portion of Monthly Benefit	<u>\$992.31</u>
x 12	Months	x 12
<u>\$11,353.80</u>	Taxable Portion of Annual Benefit	<u>\$11,907.72</u>

Federal Calculation:

\$2,000.00
÷ 260
<u>\$7.69</u>
\$1,000.00
- \$7.69
<u>\$992.31</u>
x 12
<u>\$11,907.72</u>

If you would like to perform these calculations for yourself, you will find a breakdown of your contributions on the "notice of Retirement" we send you when you retired. The gross amount of your monthly benefit is on the last advice of deposit you received. If you aren't retired yet, contact MainePERS for a breakdown of your contributions.

Forms to change your state or federal withholding are available at www.mainepers.org or by calling MainePERS. If you have questions about taxes on your service retirement benefit, please contact us.

Option 2-8 Sample Calculation:

Retirement Date:	March 1, 2009
Retirement Age:	62
Beneficiary Age:	62
Benefit Payment Option:	Option 2
Gross Benefit Amount:	\$12,000.00
Contributions as of 1/1/1989:	\$2,000 (both State and Federal taxes already paid)
Total Contributions:	\$14,000

State Calculation:

\$14,000	Taxed Contributions	\$2,000.00
÷ 310	Estimated Number of Payments	÷ 310
<u>\$45.16</u>	Non-Taxable Portion	<u>\$6.45</u>
\$1,000.00	Gross Monthly Benefit	\$1,000.00
- \$45.16	Non-Taxable Portion	- \$6.45
<u>\$954.84</u>	Taxable Portion of Monthly Benefit	<u>\$993.55</u>
x 12	Months	x 12
<u>\$11,458.08</u>	Taxable Portion of Annual Benefit	<u>\$11,922.60</u>

Federal Calculation:

\$2,000.00
÷ 310
<u>\$6.45</u>
\$1,000.00
- \$6.45
<u>\$993.55</u>
x 12
<u>\$11,922.60</u>