



## ***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. If you retire at or after age 75, refer to IRS Publication 939 *General Rule for Pensions & Annuities*.

If you receive your first benefit payment nine (9) months or more after your retirement effective date, the retroactive payment you receive with your first monthly benefit payment will include as much as possible of your already taxed contributions. You then recover any remaining taxed contributions each month, using the calculation method described below, based on your age when the first payment was made.

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 results of the calculation by the percentage of the benefit you each receive to calculate your share. You should also use this approach if your ex-spouse is receiving a portion of your service retirement benefit as the result of a qualified domestic relations order (QDRO).

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 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:**

\$14,000.00
÷ 260
<u>\$ 53.85</u>

\$ 1,000.00
- 53.85
<u>\$ 946.15</u>
x 12
<u>\$11,353.80</u>

Taxed Contributions
Estimated Number of Payments
Non-Taxable Portion
Gross Monthly Benefit
Non-Taxable Portion
Taxable Portion of Monthly Benefit
Months
Taxable Portion of Annual Benefit

**Federal Calculation:**

\$ 2,000.00
÷ 260.00
<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 sent 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.maineper.org](http://www.maineper.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 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:**

\$ 14,000.00
÷ 310.00
<u>\$ 45.16</u>

\$ 1,000.00
- 45.16
<u>\$ 954.84</u>
x 12
<u>\$11,458.08</u>

Taxed Contributions
Estimated Number of Payments
Non-Taxable Portion
Gross Monthly Benefit
Non-Taxable Portion
Taxable Portion of Monthly Benefit
Months
Taxable Portion of Annual Benefit

**Federal Calculation:**

\$ 2,000.00
÷ 310.00
<u>\$ 6.45</u>

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