

All Together Now

Death, Divorce, and Taxes

Presented by

Shannon Lucero, Regional Representative



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



All Together Now

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



All Together Now

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



All Together Now

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.

All Together Now

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, an application is required.

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

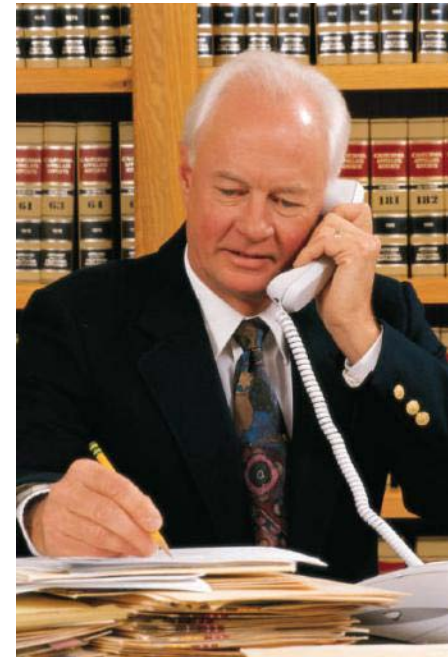
- Retiree

- 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



All Together Now

Who Can I Call?

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



All Together Now

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

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



All Together Now

Other Tax Issues

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



All Together Now

QUESTIONS?