

IRS Form 1099-R for Members Who Retired Before 2003 (Box 2b: “Taxable Amount Not Determined”)

Some SDCERS retirees receive an IRS Form 1099-R from SDCERS with a blank Box 2a and which states, “Taxable Amount Not Determined” in Box 2b. This information sheet explains why this may be.

If you received a Form 1099-R such as this, it means that SDCERS does not calculate that portion of your total annual payments that are taxable income.

IMPORTANT: If you are a retired member and you received your first pension benefit payment *after* January 1, 2003, this information does not apply to you. In your case, SDCERS does calculate the amount of your taxable income and reports that amount in Box 2a. This calculation was performed using the IRS’ “Simplified Method.”

If you were employed by the City prior to January 1, 1993, all pre-1993 employee retirement contributions were made on a post-tax basis. After retirement, IRS rules allow you to receive a portion of your post-tax contributions tax-free. Over the years, there were several allowable IRS methods to calculate the annual portion that could be recovered tax-free and the amount of taxable income.

If you retired and received your first pension benefit payment **before July 1, 1986**, you had two choices of calculation methods to determine the amount of your taxable income: the “General Rule” or the “Three Year Rule.” Since the calculation method was a taxpayer’s personal choice, SDCERS could not perform any tax-free and taxable income calculations. Therefore, your annual 1099-R has and will always be reported as “Taxable Amount Not Determined” with the Taxable Amount reported as blank.

If you retired and received your first pension benefit payment **between July 2, 1986 and November 18, 1996**, you also had two choices of calculation methods to determine the amount of your taxable income: the “General Rule” or the “Simplified Method.” The “Three Year Rule” was eliminated. Since the calculation method to use was still the taxpayer’s personal choice, SDCERS could not perform any tax-free and taxable income calculations. Therefore, your 1099-R has and always will be reported as “Taxable Amount Not Determined” with the Taxable Amount reported as blank.

If you retired and received your first pension benefit payment **between November 19, 1996 and December 31, 2002**, you must use the “Simplified Method” to calculate your tax-free and taxable income amounts. The “General Rule” was eliminated as an option for SDCERS members. During this time period, however, SDCERS’ computer systems were unable to calculate these amounts dating to the beginning of your retirement. Since SDCERS has no information about how much of a member’s post-tax contributions have already been claimed since their first year of retirement, SDCERS cannot perform any current or future annual tax-free and taxable income calculations.

Therefore, your annual 1099-R has and always will be reported as “Taxable Amount Not Determined” and the Taxable Amount reported will be blank.

Prior to 2003, SDCERS issued a “Certificate of Retirement Allowance” letter at retirement. This letter reported to you the amount of your monthly pension benefit at retirement and the total amount of member contributions that were contributed on a pre-tax and post-tax basis. This letter provided the amounts needed to perform the calculations under the different calculation options.

For those taxpayers who had a choice between two calculation methods, the method selected in the first year of retirement is required to be used for life.

Beginning with **new** retirees who received their first pension benefit payment **after January 1, 2003**, SDCERS’ computer systems became capable of calculating the taxable and tax-free amounts using the “Simplified Method.” Your Form 1099-R provides the portion of taxable income you received in Box 2a.

If you are a surviving spouse, a named beneficiary receiving a monthly continuance benefit, or a former spouse receiving a portion of a member’s monthly pension benefit under a Domestic Relations Order, these 1099-R rules also apply to you. Your annual 1099-R reporting is also based on the date the SDCERS member/retiree to whom you were related began receiving monthly pension benefit payments. You may need to use the Certificate of Retirement Allowance letter from your spouse, decedent, or former spouse to calculate your Taxable Amount.

NOTE: SDCERS cannot provide tax advice regarding your personal calculations described in this information sheet. Please consult with your own tax advisor and, for more information, see Internal Revenue Service Publication 575, “Pension and Annuity Income,” and Publication 939, “General Rule for Pensions and Annuities.”