

Federal Tax Reporting Information for 2008

For OP&F benefit recipients

Ohio
Police
& Fire Pension
Fund

www.op-f.org



Federal Tax Reporting Information

The Ohio Police & Fire Pension Fund (OP&F), which was established by the Ohio General Assembly in 1965, is a qualified plan under the Internal Revenue Code 401(a) as a governmental defined benefit pension plan. OP&F is required to report distributions related to service, disability, annuity, survivor, death and active member withdrawals on Form 1099–R. OP&F prepares and files a Form 1099–R for each benefit recipient or member who has received a cash distribution of \$10 or more.

This brochure provides a general overview on OP&F's tax reporting methods and is provided as a courtesy to our members and survivors. The information used in determining the taxability is based on OP&F's books and records as of the date the Form 1099–R is issued, as such information is provided to OP&F by the employers, members and survivors. You should consult with a personal tax or financial advisor with respect to your individual circumstances and tax returns.

Table of Contents

Highlights for 2008.....	2
<i>Pension overpayments</i>	
<i>Taxation of correction payments</i>	
<i>Notification of death</i>	
<i>Pension Protection Act: Gross income exclusion</i>	
<i>Taxable amount not determined</i>	
<i>Returned items and address changes</i>	
Private letter ruling.....	6
Calculating taxability.....	7
Medicare Part B reimbursements	7
Changing withholding amounts	8
Statement of contributions.....	8
Basis recovery and reducing taxable income	9
IRS tables and annuity periods.....	10
Age and service pensions	11
Division of property orders.....	11
Off-duty disability benefits.....	12
On-duty disability benefits.....	13
Survivor benefits.....	16
Contribution withdrawals	18
Distribution codes	20
Frequently asked questions.....	21
More information.....	25

Highlights for 2008

Benefit Overpayments

While OP&F strives to prevent overpayments from occurring, overpayments do occur as a part of pension fund business.

Overpayments primarily relate to a delay in death notification, termination of disability benefits and loss of student eligibility status timing.

For purposes of 1099-R reporting, OP&F must reduce the gross and related taxable income on an individual's 1099-R for repayments related to overpayments of gross benefits. If the overpayment is related to non-gross benefits then no reduction for 1099-R purposes is required. Furthermore, this reduction is only required for repayments made in the current tax year, representing current tax year items.

Taxation of Correction Payments

The Internal Revenue Code (IRC), Rev. Proc. 2002-84 states that if the repayment is made in the same tax year as when the overpayment was made, then the repayment amount would reduce the taxable income of the participant for that year. However, if the repayment is made in a later tax year, then the participant's taxable income as reported by the plan for the payment year would not change. Instead, a participant who itemized deductions may be able to deduct the repayment and should consult with a tax advisor.

Notification of death

It is important to notify OP&F of the death of a member or survivor. It is important to be aware that cashing benefit checks or using electronic fund benefit payments following the death of a member will cause an overpayment issue. OP&F is required to recover these benefit payments and action may include contacting the office of the Ohio Attorney General if repayment terms cannot be established.

Pension Protection Act: Gross income exclusion

The Federal Pension Protection Act of 2006 included a provision allowing retired public safety officers to take up to a maximum of \$3,000 income exclusion from their taxable gross income beginning with the 2007 tax year if they have health insurance premiums that are paid directly to the health care provider for the qualifying plan.

This exclusion can include premiums paid on behalf of the member, spouses and dependents when the premiums are paid directly from the eligible public safety officer's service or disability pension. This would include premiums of the OP&F-sponsored health care plan. However, long-term health care is currently not deducted from OP&F health care coverage and therefore not eligible for this exclusion. For information on how to take advantage of this gross income exclusion, please see the Frequently Asked Questions on Page 22.

Taxable Amount Not Determined

If Box 2b of Form 1099-R is marked with an "X" and Box 2a is blank, it means OP&F could not calculate the amount of the benefit that is considered to be taxable. In most every case the benefit is fully taxable and the benefit recipient may be able to reduce the taxable income with basis recovery. However, OP&F is not able to make this determination on their behalf due to various methods available to benefit recipients prior to Nov. 19, 1996. There may be other exceptions where this circumstance applies, but in those cases, OP&F will notify the affected benefit recipients before reporting the benefits to the IRS in this fashion.

Returned items and address changes

Member and survivor addresses in the OP&F system as of Dec. 31, 2008 are used to mail the Form 1099-R. If the address in the system is incorrect, OP&F is unable to forward the Form 1099-R even if a forwarding address is provided by the post office. A Change of Address Form must be completed and received by OP&F in order to send the Form 1099-R to a new address. The form is available online at www.op-f.org or by calling OP&F Customer Service at 800-860-9599.

DROP distributions

The IRS has issued a private letter ruling to OP&F on the taxability of the Deferred Retirement Option Plan (DROP) benefits.

All money in the DROP account is likely to be taxable “in full” upon withdrawal. Benefit recipients may, however, have some basis recovery or after-tax contributions that will offset a portion of these taxable benefits if they elect to receive a lump sum distribution of the total DROP accrual prior to the date the monthly normal pension payments begin and the distribution is made within 90 days from the commencement date of the monthly retirement benefits, which would include interim payments. If not, then any after-tax contributions paid into the DROP account will be applied to the annuity payment on the normal pension distribution over the Internal Revenue Service (IRS) required annuity period.

Since the IRS has not ruled on the taxability of distributions made after the 90 day period referenced above, OP&F will modify its tax reporting methodology if an individual secures a private letter ruling (PLR) that approves a different taxability approach and the PLR is provided to OP&F in a timely fashion, and prior to electing any distribution payments from OP&F.

The IRS may impose a 10 percent penalty for early withdrawal if money is taken in a lump sum or partial withdrawal, as it is considered to be taken out early if the benefit recipient is under age 50 by the end of the calendar year of receipt of payment. This does not apply to monthly distributions. OP&F recommends the member seek tax advice on distributions because while the 10 percent penalty applies, there are exceptions in addition to the age 50 provision noted above. OP&F does not offer tax advice or financial planning services. More information can be obtained by going to www.irs.gov and search for “Topic 558—Early Distributions from Retirement Plans.”

Please be aware that if DROP distributions are rolled over to an Individual Retirement Account (IRA) or another qualified plan, while the OP&F rollover may not impose the penalty, a penalty may be imposed by either the IRA or the other qualified plan rollover. These tax rules apply to funds leaving OP&F. Please check with the IRA administrator or other defined benefit plan administrator to see if they may impose the penalty.

Pick-up plan documentation

The IRS permits employers to participate in a contribution pick-up plan that results in a tax deferral of those contributions until the benefit recipient receives them. OP&F adopted model pick-up resolutions that must be used by participating employers electing to pick up all or a part of the 10 percent employee contributions for our active membership. OP&F received a private letter ruling from the IRS, requiring employers to use a mandated form so the deferred contributions will not constitute wages from which federal income taxes must be withheld. If your contributions are picked-up by your employer and the model resolution has been approved by OP&F, the contributions will not be treated as basis recovery when your benefit is paid because those contributions have not yet been taxed.

Private letter ruling

The information reported on Form 1099–R is calculated using the tax laws within the IRC, which are enacted by Congress. The IRS issues regulations to help interpret and apply the law. In order to better serve benefit recipients, OP&F obtained an IRS private letter ruling regarding the taxability of certain types of benefits offered to OP&F members and survivors. Under the private letter ruling, the IRS ruled that OP&F’s governing statute for disability benefits is in the nature of a workers’ compensation statute under Reg. Section 1.104–1(b), and that the disability benefits of a former police officer or firefighter whose disability resulted from an injury incurred in the line of duty were excludable from income under Section 104(a)(1), unless a portion of this benefit is based on years of service.

When a member has 25 or more years of service at the time of retirement, a portion of their disability benefit amount is based on their service credit, which is taxable as a service benefit. Copies of the private letter ruling are available upon request and on the OP&F Web site at www.op-f.org.

IRS inquiries

Benefit recipients may have questions regarding notices received from the IRS in which the IRS does not recognize the private letter ruling for line of duty benefits that are considered non-taxable. OP&F reports all distributions to the IRS as reportable income, regardless of the taxable or non-taxable nature of the benefits. If your distribution is non-taxable, then Box 2a is completed with \$0.00. If you do not file an annual tax filing and reflect this non-taxable distribution you will probably receive a notice from the IRS as they were unable to match the income reported by OP&F to your filing of reportable income.

OP&F benefit recipients should contact OP&F if they receive such a notice. To the extent the private letter ruling is applicable, OP&F can then mail a letter to the benefit recipient that outlines the applicability of the private letter ruling to the benefit recipient’s specific benefits so that they can forward this to the IRS.

Calculating taxability

Pursuant to current tax law, OP&F strives to provide accurate information by calculating the taxable and nontaxable portions of as many distributions as possible.

OP&F calculates the taxability of distributions and OP&F benefits paid if any of the following apply:

- the member is covered under the IRS private letter ruling;
- the member retired on or after Nov. 19, 1996;
- the member withdrew contributions; or
- the member received a DROP distribution.

OP&F is not able to report the taxability of certain benefits for members who retired prior to Nov. 19, 1996 since OP&F calculates the taxable portion of a member's benefits using the Simplified Method and these members have an alternate method available to them known as the Simplified General Rule or Safe Harbor Method. Therefore, Form 1099-Rs issued by OP&F are marked "Taxable Amount Not Determined" in Box 2(b) if a member retired prior to Nov. 19, 1996, and is not covered by OP&F's private letter ruling from the IRS. These members should seek tax advice on the determination of the taxability of their OP&F benefit when preparing tax returns. For more information, see Page 21.

Medicare Part B reimbursements

Medicare Part B reimbursements are reported by OP&F as non-taxable for all OP&F benefit recipients.

- For benefit recipients whose taxability was calculated by OP&F, Medicare Part B reimbursements were included as a "Gross Distribution" in Box 1, but are not included in the taxable amount shown in Box 2a.
- For those benefit recipients whose taxability could not be calculated by OP&F, the Medicare Part B amounts were not included in the gross amount.

Changing withholding amounts

Changes to federal and state of Ohio tax withholdings must be made in writing and include the signature of the benefit recipient or alternate payee and their Social Security number, subject to certain limitations.

A *Withholding Certificate for Ohio State Income Tax* is available on the OP&F Web site at www.op-f.org, and the federal form W-4P is available upon request by calling OP&F Customer Service at 800-860-9599.

Statement of contributions

All OP&F members receive a *Statement of Contributions* upon retirement, which may also be referred to as an *Investment in Contract*. This statement reflects the total amount of after-tax member contributions made to OP&F throughout the member's active career, as reported to OP&F by the member's employer. Because this amount reflects after-tax contributions, the applicable taxes have already been applied to these contributions and the member can recover these amounts based on IRS defined methods. Upon request, OP&F will also issue a *Statement of Monies Paid* to alternate payees and survivors of deceased members.

In addition, if an active member dies prior to retirement or before fully recovering his or her after-tax member contributions and there are no additional survivors, then the estate is eligible to receive the *Statement of Contributions* of the member's account for finalizing the estate. These after-tax contributions may be recoverable as part of the final estate tax filings.

To request a duplicate copy of your *Statement of Contributions* or to report incorrect information provided to OP&F by your employer, please contact OP&F at 800-860-9599.

Basis recovery and reducing taxable income

OP&F benefit recipients can sometimes reduce the taxable amount of their income. Basis recovery is the IRS' defined process to recover a portion of the after-tax contributions paid into OP&F and is based on information reported to OP&F by the member's employer(s).

The method used to calculate a benefit recipient's basis recovery is based on methods required by the IRS, which depends on the member's retirement date, age at retirement and annuity type selection. OP&F uses either the Simplified Method or the Revised Simplified Method for calculations shown in Box 5 on Form 1099-R.

For those benefit recipients whose retirement date with OP&F was on or after Nov. 19, 1996, and before Jan. 1, 1998, the IRS requires OP&F to use the basis recovery method known as the Simplified Method. Please refer to *IRS Notice 98-2* or *IRS Publication 575, Pension and Annuity Income*, for further information or contact OP&F Customer Service at 800-860-9599.

For those benefit recipients whose retirement date with OP&F was on or after Jan. 1, 1998, the IRS requires OP&F to utilize the method known as the Revised Simplified Method. Please refer to *IRS Notice 98-2* or *IRS Publication 575, Pension and Annuity Income*, or contact OP&F Customer Service at 800-860-9599.

In both instances, OP&F uses the *Statement of Contributions* issued upon retirement. This represents the member's Investment in Contract amount as referred to by the IRS. To request a duplicate copy of your *Statement of Contributions*, please call OP&F Customer Service at 800-860-9599.

For those retirees whose retirement date was prior to Nov. 19, 1996, information on the basis recovery method can be found in *IRS Publication 939, General Rule for Pension and Annuities*, or by contacting a tax advisor. OP&F is not able to calculate the taxability for these benefits, due to the various methods available to members.

IRS Tables and Annuity Periods

The IRS requires OP&F to use standardized tables to calculate the annuity period for realizing the recovery of after-tax contributions. These tables are outlined in Pension and Annuity Income Publication 575 issued by the IRS. After-tax contributions are allocated over the number of periods referenced in the tables below.

TABLE 1: Simplified Method*	
<i>Based on Single Life only prior to 1/1/1998</i>	
Age:	Months:
55 and under	360
56-60	310
61-65	260
66-70	210
71 and over	120

TABLE 2: Revised Simplified Method	
<i>For benefit payments 1/1/1998 to current, Single Life only</i>	
Age:	Months:
55 and under	360
56-60	310
61-65	260
66-70	210
71 and over	120

TABLE 3: Revised Simplified Method	
<i>Based on Single Life only prior to 1/1/1998, Joint and Survivor Life only</i>	
Combined age with spouse:	Months:
110 and under	410
111-120	360
121-130	310
131-140	260
141 and over	210

* After 11/18/1996 but before 12/31/1997) Prior to 1/1/1998 there was no Joint and Survivor table, only one table was used

Age and service pensions

OP&F reports the total amount of age and service pension payments, including Medicare Part B reimbursements, paid in 2008 as “Gross Distribution” in Box 1 of IRS Form 1099–R.

If OP&F did not calculate the taxability of the benefit, Medicare Part B reimbursements were excluded from Box 1 and Box 2b was marked as “Taxable Amount Not Determined.”

If OP&F did calculate the taxability of the benefit, Box 2a represents the taxable income or “Gross Distribution” minus Medicare Part B reimbursements and minus Box 5 basis recovery.

Division of property orders

Distributions made to alternate payees under a Division of Property Order approved by OP&F, who are spouses or former spouses, will not be included as a deduction on the benefit recipient’s Form 1099–R. The alternate payees will receive a separate Form 1099–R from OP&F.

OP&F reports all distributions to an alternate payee, regardless of the nature of the original benefit and will report it as taxable income on the Form 1099–R, subject to basis recovery. The only exception is if the member retired prior to Nov. 19, 1996. In that case, OP&F will not be able to calculate the taxable amount and will mark the form as “Taxable Amount Not Determined.”

Off-duty disability benefits

Disability benefits that are paid due to an injury or illness not resulting from the performance of the member's official duties are reported to the IRS in the same manner as age and service pensions (i.e. taxable). Basis recovery, however, does not begin until the benefit recipient's earliest eligible retirement date. Off-duty benefits do not receive the same tax treatment as on-duty benefits because they do not meet the test of being similar to a workers' compensation benefit.

Calculating the amount of off-duty disability benefits that are taxable

Off-duty disability awards are fully taxable to the benefit recipient. However, for benefit recipients who have reached minimum retirement age, a portion of their benefit check may contain an amount on which they have previously paid income tax and the basis recovery method was used to reduce the member's taxable income. This amount of annual reduction is shown in Box 5 of the Form 1099-R. The annual amount of Medicare Part B reimbursement is included in the gross distribution, Box 1 of the Form 1099-R, but is not taxable and not included in Box 2a.

For members who have not reached OP&F's minimum retirement age as stated above, the total amount of the pension benefit is taxable. Medicare Part B reimbursements are included in the gross distribution amount in Box 1 of the Form 1099-R, but are not taxable and not included in Box 2a. Once the recipient reaches the minimum requirements, the taxable amount may be reduced based upon the Statement of Contributions.

On-duty disability benefits

According to OP&F's private letter ruling, an on-duty disability benefit recipient is entitled to receive a maximum of 60 percent of their benefit as non-taxable.

For this example, we will assume that this member's disability benefit is 64.3 percent of their average annual salary. Since they had more than 25 years of service, 4.3 percent of the total percentage of their disability benefits are taxable. Currently, the member receives \$30,000 per year in benefits.

The IRS private letter ruling states that because the law under which OP&F's "on-duty" disability benefits are awarded is a statute in the nature of a workers' compensation act, these benefits are partly or totally excludable from gross income under section 104(a)(1) of the Internal Revenue Code.

See the below for an example of how OP&F calculates the non-taxable portion of total benefits paid for on-duty recipients with 25 or more years of service.

Determining the non-taxable portion of on-duty disability benefits

$$\begin{array}{r}
 64.3\% \text{ (disability benefit as a \% of average annual salary)} \\
 - \quad 60\%* \text{ (non-taxable max \% allowed for disability benefits)} \\
 \hline
 = \quad \mathbf{4.3\%} \text{ (disability benefit as a \% of average annual salary)} \\
 \text{---} \rightarrow 4.3\% \\
 \div \quad 64.3\% \text{ (disability benefit as a \% of average annual salary)} \\
 \hline
 = \quad \mathbf{6.6874\%} \text{ (taxable ratio of benefit)} \\
 \text{---} \rightarrow 6.6874\% \\
 \times \quad \$30,000.00 \text{ (Total benefits paid less Medicare B reimbursements)} \\
 \hline
 = \quad \mathbf{\$2,006.22} \text{ (taxable portion of benefit)} \\
 \text{---} \rightarrow \$2,006.22 \\
 \text{---} \rightarrow \mathbf{\$27,993.78} \text{ (Non-taxable portion of member's on-duty benefits)}
 \end{array}$$

* Those who retired on or before 2/28/1980 will use 50 percent.

On-duty disability benefits chart

This explains the taxability and Form 1099-R treatment of the different disability types.

Type of Disability	Taxability	Box 1 (Gross Distribution)	
Permanent and Total Disability	Entirely excluded from gross income.	Gross amount paid, including Medicare Part B reimbursement.	
Partial Disability, less than 25 years of service	Disability recipients whose benefit award is based on a percentage of disability—benefits may be completely excluded from gross income.	Gross amount paid, including Medicare Part B reimbursement.	
Pre-minimum retirement age partial disability, 25 years of service or more*	Benefits for partial disability recipients with 25 years of service or more are based on percentage of disability and are partially based on years of service.	Gross amount paid, including Medicare Part B reimbursement.	B y
	For recipients who have not reached OP&F's minimum retirement age, the total amount of pension benefit that is based on years of service is taxable.	Gross amount paid, including Medicare Part B reimbursement.	B o M n r e
Post-minimum retirement age partial disability, 25 years of service or more*	For recipients who have reached OP&F's minimum retirement age, a portion of their monthly benefit checks may contain an amount on which they have previously paid income tax and the basis recovery method was used to reduce the taxable income.	Gross amount paid, including Medicare Part B reimbursement.	B o M 5 b r

* This chart does not apply to disability retirees who retired prior to Nov. 19, 1996 since OP&F Box 2b will be marked "taxable amount not determined."

Your Form 1099-R shows	
Box 2a (Taxable Amount)	Box 5
\$0 taxable	N/A
\$0 taxable	N/A
Benefit portion based on service over 25 years is taxable.	N/A
Box 1 minus the non-taxable portion of your total benefits paid minus any Medicare Part B reimbursements. Please note your taxable amount may be reduced once you reach the minimum retirement age with basis recovery.	N/A
Box 1 minus the non-taxable portion of your total benefits paid minus any Medicare B reimbursements minus Box 5. Please note, your taxable amount may be reduced once you reach the minimum retirement age with basis recovery.	This box will show the amount of annual reduction known as "basis recovery." See Page 9 for a complete explanation.

Since OP&F is unable to determine taxability, as previously explained. For these cases,

Survivor benefits

Statutory survivor pensions

Statutory survivor pensions are paid to eligible survivors of deceased OP&F members regardless of whether or not the member's death was duty related. These benefits are reported to the IRS on a Form 1099-R and may or may not be taxable.

Line of duty deaths

If the member died in the line of duty and was not subject to an exception listed below (such as suicide), then these benefits paid to survivors (other than parents) were non-taxable. In a 2002 change to the tax law, the date of death was lifted as a determination factor for taxability. The only determination still required for these benefits to be considered non-taxable is whether there is an applicable exception under Internal Revenue Code Section 101(h).

Under Internal Revenue Code Section 101(h), the non-taxable treatment for line of duty death benefits will not apply if: the death of the public safety officer was caused by the intentional misconduct of the officer or by the officer's intention to bring about his or her own death; the officer was voluntarily intoxicated at the time of death; the officer was performing his or her duties in a grossly negligent manner at the time of death; or the payment is to an individual whose actions were a substantial contributing factor to the death of the officer.

For those benefit recipients who qualify for the favorable tax treatment, the Form 1099-R will show the total amount paid to the survivor, including any Medicare Part B reimbursements, in Box 1. Box 2a, the taxable amount, will show zero dollars as being taxable. Please refer to Internal Revenue Code 101(h) for more information.

Non–line of duty deaths or line of duty deaths where an exception applies

The total benefit may be taxable for survivors receiving a statutory benefit resulting from a member's death that was not incurred from a line of duty injury or if an exception applies to a death incurred on duty, as described above. For these survivors, the Form 1099–R will show the total amount paid to the survivor, including any Medicare Part B reimbursements, in Box 1. Medicare Part B reimbursements are not taxable and will not be included in Box 2a, but the remaining amount will be reported as taxable. In any event, if the member's death was not incurred in the line of duty or not as a result of injuries incurred in the line of duty, the statutory survivor benefit is taxable.

Joint and Survivor Annuities (JSA)

Survivor benefits paid as a continuation of a member's pension or benefit under a Joint and Survivor Annuity (JSA) are reported on Form 1099–R in the same manner as the original benefit. If the original benefit was a permanent and total line of duty disability, the JSA benefit remains non–taxable. If the original benefit was partially taxable due to a partial disability benefit award, the amount based on years of service is the same percentage as the continuation benefit. For more information on this calculation, see the sections on disability benefits (on–duty and off–duty), starting on Page 12.

Calculating the taxable amount of a JSA

Joint and survivor recipients' monthly benefit checks may contain an amount on which the member had previously paid income tax and the basis recovery method was used to calculate the taxable amount. The annual amount of the reduction is shown in Box 5 of the Form 1099–R. Box 1, gross distribution amount, includes the total benefit paid to the survivor, including any Medicare Part B reimbursements. Since Medicare Part B reimbursements are not taxable, they are not included in Box 2a.

Ohio Public Safety Officers Death Benefit Fund

Section 742.63 of the Ohio Revised Code provides benefits to the families of Ohio firefighters and law enforcement officers who are killed in the line of duty. This program is funded by the State of Ohio and administered by OP&F. Under the IRS private letter ruling, benefits paid under the Ohio Public Safety Officers Death Benefit Fund are considered to be in the nature of workers' compensation benefits and are entirely excludable from income. OP&F reports payments made to Ohio Death Benefit Fund recipients on a Form 1099-R showing the gross distribution in Box 1. The taxable amount in Box 2a will be zero.

Lump Sum Death Benefit

Section 742.58 of the Ohio Revised Code provides lump sum death benefit on the death of a member of OP&F, who at the time of death is receiving a service retirement pension or disability benefits. A lump sum payment of \$1,000 is paid to the surviving spouse, or if there is no surviving spouse, the beneficiary of the member designated on a form provided to OP&F. If there is no surviving spouse or designated beneficiary, the \$1,000 is paid to the estate. This \$1,000 is taxable and reportable to the IRS as a distribution.

Contribution withdrawals

OP&F makes distributions in the form of various types of withdrawals including:

- refunds;
- DROP distributions;
- rollovers made to other plans;
- erroneous contribution refunds;
- refunds of excess service or military service credit purchases; or
- estate payments.

While OP&F is able to calculate the taxability of the amount for all of these withdrawals based on the amount of the distribution and the nature of the withdrawal, OP&F strongly encourages members to seek tax advice prior to applying for a withdrawal to ensure all options are explored prior to distribution.

This is especially true for rollovers that are sent from OP&F and are then subsequently withdrawn from another plan.

Additionally, tax law changes now offer more flexibility to rollover contributions and OP&F only withholds mandatory amounts required by law and additional taxes upon request. There may be an additional 10 percent penalty for early withdrawals depending on the member's age or other circumstances.

OP&F is able to calculate the taxability on these distributions based on the way OP&F tracks the after-tax and pre-tax member contributions that OP&F receives from employers, other Ohio retirement systems and sources of contributions as directed by the member for the purchase of service credit. Each time a member's contribution is made to OP&F, it is posted to the member ledger as either after-tax contributions or pre-tax contributions. This posting calculates how the distribution will be reflected on Form 1099-R when a withdrawal occurs.

Contribution amounts that were considered after-tax contributions have already been taxed at the member level and cannot be taxed at the time of distribution from OP&F. On the other hand, amounts that were received as pre-tax contributions have not been taxed at the member level and are fully taxable at the time of the distribution.

Box 1 of Form 1099-R will reflect the total amount of the distribution and Box 2a will reflect the taxable portion. The difference between the two amounts represents the amount of after-tax contributions made to OP&F and will be displayed in Box 5.

Active members will not receive a Form 1099-R for transfers made from OP&F to another Ohio retirement system, since these are considered to be "trustee-to-trustee" transfers.

Distribution codes

Box 7 of Form 1099–R contains a distribution code as required by the IRS. These distribution codes as used by OP&F are below.

1	Early Distribution, Not Yet Age 59½, no known exceptions
2	Early Distribution, Not Yet Age 59½, exception applies
3	Disability Benefits
4	Death Payments to a Beneficiary
7	Normal Distribution and Over Age 59½
E	Excess Contributions or Purchase Refunds
G	Direct Rollovers and Rollover Contributions

According to IRS instructions, OP&F must use Code 1 even if the distribution is made for medical expenses. Therefore, the benefit recipient will have the responsibility of clarifying the reporting when the benefit recipient files Form 1040 that the 10 percent penalty will not be applied if the benefit recipient has offsetting medical expenses under Code Section 72(t)(B). Benefit recipients should seek tax advice to see if this exception applies. Code 2 will only be used by OP&F if the following situations are applicable to OP&F:

- federal tax levy;
- a distribution from OP&F after separation from service where the member has reached age 50 in the calendar year of the distribution, for lump sum distributions (including DROP);
- a distribution that is part of a series of substantially equal periodic payments; or
- a distribution to an alternate payee.

Frequently asked questions

Can someone else contact OP&F to receive information on my account or copies of my Form 1099–Rs?

- OP&F can only provide information pertaining to a benefit recipient's account to a third party with a notarized, prior written authorization from the benefit recipient.

Why didn't I receive a Form 1099–R?

- OP&F mailed the Form 1099–Rs on or before Jan. 31, 2009 to all benefit recipients who received a cash distribution of \$10 or more in 2008. Please allow 10 business days for the form to reach the address OP&F has on file. If the form is not received, please request another copy from OP&F Customer Service at 800–860–9599. If the benefit recipient has changed their address and OP&F does not have it on file, the 1099–R may have been mailed to the previous address. Please send a completed OP&F Change of Address Form (available to download at www.op-f.org) and request a duplicate copy of your Form 1099–R.

How do I request another Form 1099–R?

- Contact OP&F Customer Service at 800–860–9599 to request a duplicate copy. Please verify your current address with the OP&F representative as OP&F can only mail the forms to the address that is on file.

How do I report the \$3,000 gross income exclusion for public safety officers referenced in the Pension Protection Act?

- The IRS now has tax forms, publications and instructions on its Web site for the 2008 tax year. These up-to-date materials include a provision for the Public Safety Officer exclusion from gross income of up to \$3,000 for qualified health insurance premiums. While the form has not been changed, Line 16b on Form 1040 is able to accommodate this exclusion.

Retired public safety officers should report their total pension distributions on line 16a of Form 1040. If the individual qualifies for the insurance premium exclusion, it should be indicated on line 16b of Form 1040. To take this exclusion, reduce the otherwise taxable amount of your pension or annuity by the amount excluded. Remember that the amount shown in box 2a of Form 1099-R does not reflect the health care premium exclusion. The amount of health care contributions for 2008 is listed on your OP&F monthly benefit statement for December.

When taking this exclusion, the public safety officer should write “PSO” next to the adjusted taxable amount received on line 16b. Detailed information appears on Page 22 of the 1040 instructions for 2008.

For those who do not use Form 1040, the exclusion can also be reported on Form 1040A (lines 12a and 12b) and on Form 1040NR (line 17a and 17b). If you have any questions on this exclusion, please consult a tax professional for advice.

How do I request another copy of my Statement of Contributions?

- OP&F will mail a Statement of Contributions to members upon retirement. Members can request a duplicate copy by contacting OP&F’s Customer Service at 800–860–9599.

What should I do if I disagree with the information reported on my Form 1099–R?

- Contact OP&F Customer Service at 800–860–9599 and be prepared to provide information that supports the concern.

What does the amount in Box 5 represent?

- Box 5 of the Form 1099–R represents a portion of after–tax contributions that were recovered by a member for a given year. Box 5 does not represent health care or insurance premiums. If Box 5 of the Form 1099–R is showing a dollar amount, then this amount was calculated by OP&F using the IRS–required basis recovery methods or, for a total withdrawal, represents the total amount of after–tax contributions. If Box 5 of the Form 1099–R is blank, then one of the following applies: OP&F could not calculate this amount; no after–tax contributions were received; or your benefit is fully non–taxable and no basis recovery is necessary.

How much of my benefit is taxable?

- In an effort to better serve our members, OP&F calculates the amount of the annual benefit that is taxable for members who retire on or after Nov. 19, 1996. For some members, a portion of their monthly benefit check may contain an amount on which the member had previously paid income tax and the appropriate basis recovery method was used to calculate the taxable amount. Therefore, if OP&F calculated your taxable income, the amount that you previously paid income tax on will be shown in Box 5 of the form.

Do I have to file a tax return with the IRS?

- OP&F is not able to calculate whether or not you are required to file an annual tax return. Please contact the IRS directly for information on filing requirements.

Why did I receive more than one Form 1099-R?

- *Age-service retirees who turned 59½ in 2008*
You will receive two Form 1099-Rs because the IRS-required distribution code changes from 2 to 7 at that age.
- *More than one benefit type received*
You will receive a Form 1099-R for each type of benefit received in 2008.
- *Refund issued in 2008*
You will receive a Form 1099-R for any refund of excess employee contributions or service or military purchases that did not enhance your benefit at retirement.
- *Active member or DROP withdrawal issued in 2008*
You may receive a Form 1099-R for any withdrawal or rollover of contributions you received this year. If you selected a combination of withdrawals and rollovers, they are printed on separate forms.

Why doesn't the year-to-date total on my December benefit check match the gross distribution on my Form 1099-R?

- *Retirement benefit finalized*
If your retirement benefit was finalized in 2008, the year-to-date total on your benefit check started over at zero when you switched from an interim payment to a final payment. The amount on your Form 1099-R is your combined income of both accounts for 2008.
- *Partial disability*
Only the portion of benefit based on years of service is reportable income and is noted on your Form 1099-R, see the sections on disability benefits (on-duty and off-duty), starting on Page 11.
- *Medicare B reimbursements*
Amounts for Medicare Part B reimbursement were only included if OP&F calculates your taxable amount and in such case, Medicare Part B reimbursements are reported as not taxable.

More information

For additional information, the IRS has the following resources available which may be helpful:

Publications

Publications listed below can be ordered from the IRS by calling 800-TAX-FORM or writing to the nearest IRS Forms Distribution Center. They may also be available at the local library, post office or the IRS Web site listed below.

- *Publication 575, Pension and Annuity Income*
- *Publication 939, General Rule for Pensions and Annuities*

Phone Counselors

Contact the IRS with your tax questions at 800-829-1040.

On the Internet

Visit the IRS online at www.irs.gov.



140 East Town Street
Columbus, Ohio 43215

Active Membership: 888-864-8363
Retirees and Survivors: 800-860-9599
General Information: (614) 228-2975
TTY: (614) 221-3846
Facsimile: (614) 628-1777
E-mail: questions@op-f.org

www.op-f.org

Prudence • Integrity • Empathy

The Ohio Police & Fire Pension Fund (OP&F) is dedicated to providing retirement and related benefits, accurate information, dependable communication and valuable educational assistance to our members. As responsible fiduciaries, we will professionally manage the resources of OP&F and implement its practices, plans and benefit services with the highest ethical standards.