2018
FEDERAL TAX REPORTING INFORMATION
for OP&F benefit recipients
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, DROP 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.
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HIGHLIGHTS FOR 2018

2018’s Form 1099-R is available on line

The 2018 Form 1099-R is available on OP&F’s secure Member Self Service (MSS) Website. Log on to OP&F’s website at www.op-f.org, click on Member Self Service Web and follow the steps under Register. Once an electronic profile has been set up, beneficiaries will have access to their 2018 Form 1099-R.

Members may opt-out of receiving Form 1099-R in the mailing

OP&F’s Member Self Serve website allows members to opt-out of receiving Form 1099-R in the mail and to download the form electronically for tax reporting purposes. This feature not only saves the cost of mailing the form but is also environmentally friendly and convenient.

Members must choose to opt-out prior to Dec. 31 in order to not receive the mailing. The 2018 Form 1099-R will be mailed in late January to those not opting-out. Members can change their mind and again receive the document in the mail by changing their preferences at any time between February and December.

To opt-out of the mailing, members must log into their account in the MSS area of the OP&F website and choose Document Preferences. From this page members can choose to opt-out of the mailing. Members must have an email address to use the opt-out feature.

Members can access the Form 1099-R by logging on to the OP&F MSS Web. The Form 1099-R can be viewed and printed from the Member Documents link.

Only OP&F members who are registered for the MSS Web can retrieve and print tax forms online. To register, go to www.op-f.org and click the link for Member Self-Serve Web in the upper left corner. Next, look for the register link and follow the instructions on the screen.

OP&F recommends on or after Jan. 31 logging into the MSS Web to confirm you have all the Form 1099-Rs issued. If you have any questions, contact OP&F’s Customer Service Department at 888-864-8363.

For more information, please see the Frequently Asked Questions section beginning on Page 16.

Health care premium deductions are not reported on Form 1099-R

Health care premium deductions are not reported on Form 1099-R. Health care premium deductions are summarized on the year-end benefit statement or the last benefit statement received from OP&F. All health care premiums are made with after-tax dollars.

For all retirement benefits finalized in 2018, the year-to-date total on the benefit statement started over at zero when the benefit payment switched from an interim payment to a final payment. Please combine the health care premium deductions of both accounts to obtain the total health care premium deductions for the year.

There may be other situations that required OP&F to start over from zero, please make sure to account for all months of premium payments.

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 (SSN), subject to certain limitations.

The 2018 Internal Revenue Service (IRS) Form W-4P Withholding Certificate for Pension or Annuity Payments and the Withholding Certificate for Ohio State Income Tax are both available on the OP&F website at www.op-f.org. To request a copy of these forms please call OP&F’s Customer Service Department at 888-864-8363.

Benefit overpayments and corrections

While OP&F strives to prevent benefit overpayments from occurring, they do occur as a very small part of pension fund business. Overpayments primarily relate to a delay in death notification, termination of disability benefits and loss of dependent eligibility status.

For purposes of Form 1099-R reporting, 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 may be able to deduct the repayment and should consult with a tax advisor.
Notification of death termination of disability benefits

It is important to notify OP&F immediately of the death of a member or survivor. It is important to be aware that cashing benefit checks or using electronic benefit payments received following the death of a member or survivor will cause an overpayment issue. Benefit overpayments primarily occur due to a delay in death notification or termination of disability benefits. OP&F is required to recover these benefit payments and action may include offsetting benefits due and/or contacting the office of the Ohio Attorney General if repayment terms cannot be established.

Receiving more than one Form 1099–R is not uncommon

There could be several reasons for receiving more than one Form 1099-R for the past tax year. For example:

- If the benefit recipient is receiving more than one benefit type;
- If during 2018, a member received a refund of either employee contributions or a service credit purchase;
- If the benefit recipient turned age 59 ½ in 2018; or
- If the benefit recipient is receiving an off-duty disability benefit and they reached minimum retirement age in 2018.

If the member participated in DROP they could receive up to five Form 1099-Rs:

- One Form 1099-R for receiving a DROP monthly benefit;
- One Form 1099-R if the member turned age 59 ½ in 2018 and was receiving the DROP monthly benefit;
- One Form 1099-R for all partial DROP withdrawal benefits received before turning age 59 ½;
- One Form 1099-R if the member turned age 59 ½ in 2018 and after turning age 59 ½ received any partial DROP withdrawal benefits; or
- One Form 1099-R for a full DROP account withdrawal.

For more information, please see Page 17.

Pension Protection Act: Gross income exclusion

The Federal Pension Protection Act of 2006 included a provision allowing retired public safety officers to take an income exclusion up to a maximum of $3,000 from their taxable gross income made from an eligible retirement plan beginning with the 2007 tax year. The exclusion is available if they have health insurance premiums that are paid directly to the health care provider for the qualifying plan and have amounts paid by the qualified plan that would otherwise be included in their income. This exclusion does not apply to survivors. Once the eligible public safety officer is deceased this gross income exclusion stops.

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 pension or disability benefit. This would include premiums of the OP&F-sponsored health care plan, including medical, AARP, prescription drug, dental and vision coverage. 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 section beginning on Page 16.

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. For more information, see the section Calculating Taxability on Page 7.
Ensuring Form 1099-R is received timely

OP&F’s mail is not forwardable. OP&F cannot fax Form 1099-R without a notarized authorization. In order to ensure that Form 1099-R is received in a timely manner, OP&F offers four convenient ways to update contact information:

- Online at www.op-f.org. Click on MSS Web and follow the steps under Register. Once an electronic profile has been set up, member demographics can be updated;
- Email address updates to OP&F at questions@op-f.org;
- Send updated contact information in writing to OP&F at 140 East Town Street, Columbus, OH 43215; or
- Call OP&F’s Customer Service Department at 888-864-8363 to update contact information over the phone.

If the Form 1099-R will be mailed to a winter residence, please be sure to file the “Change of Address” form with the U.S. Post Office ten postal business days before delivery should begin. This too will help to ensure that the Form 1099-R will be received timely.

The U.S. Post Office’s “Change of Address” form:

- Can be filled out on line at www.usps.com or by calling 800-ASK-USPS (800-275-8777).
- Is only good for six months even if the discontinued date is not filled in.
- OP&F recommends submitting the U.S. Post Office’s “Change of Address” form at both U.S. Post Offices where permanent residence is and also at the U.S. Post Office where temporary residence will be.
- If there are problems with receiving mail, please call the U.S. Post Office at 800-275-8777.

DROP distributions

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

Box 2b “Total distribution” will not be marked if the member received a lump sum distribution of the total DROP accrual. This box was not designed for DROP. The “Total distribution” box on the Form 1099-R only applies to the pre-retirement account that maintains a police officer or firefighter’s participation and membership with OP&F. DROP is an optional accrual account, OP&F membership is not affected by DROP withdrawals.

All money in the DROP account is likely to be taxable “in full” upon withdrawal. OP&F members 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. 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 required annuity period of the IRS.

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.

DROP distributions are taxed as normal income from a 401(a) plan. DROP is reported separately on its own Form 1099-R and not combined with other retirement benefits received from OP&F. 20 percent mandatory withholding from the taxable portion does apply if the funds are not directly rolled over to another eligible retirement plan or Individual Retirement Account (IRA). If funds are rolled over into a Roth IRA, the entire taxable amount is included as taxable income, but there is no 20 percent mandatory withholding (voluntary withholding may be requested). Information about an early withdrawal can be obtained by going to www.irs.gov and searching for “Topic 558-Early Distributions from Retirement Plans”. Please seek professional tax advice before making any decisions on taking distributions from a DROP account to ensure all options are explored.
Minimum distribution

The IRS required that anyone who turned age 70 ½ in 2018 begin by April 1, 2019 taking minimum distributions from their OP&F accounts. Failure to take at least the minimum withdrawal amount each year can result in owing a 50 percent excise tax on the shortfall. If a member is a least age 70 ½, is no longer working as an OP&F member and is not receiving monthly distributions, they should contact OP&F. To begin benefit distributions contact OP&F’s Customer Service Department at 888-864-8363.

Direct rollover

For lump sum payments (such as the DROP) that are eligible rollover distributions, OP&F members have the option to rollover all or some of the taxable “pre-tax” contributions and non-taxable “after-tax” contributions to a traditional IRA, Roth IRA or to an eligible employer plan. An “eligible employer plan” includes a plan qualified under Internal Revenue Code Section 401(a), including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a 403(a) annuity plan; a 403(b) tax-sheltered annuity; and an eligible 457(b) plan maintained by a governmental employer (a “governmental 457 plan”).

A qualified non-spouse beneficiary of a deceased member may only rollover contributions directly to an inherited individual retirement account of annuity to the extent permitted by section 402(c)(11) of the Internal Revenue Code.

Please review the OP&F special tax notice for more detailed information on these direct rollover rules. However, please remember that OP&F cannot provide individual tax advice or financial planning services; therefore, please seek professional tax advice before making any decisions.

Social Security number truncated on paper statement

On the paper Form 1099-R, the first five digits of the SSN was replaced with the letter x. The SSN has been truncated to help better protect personal identifying information from identity theft. The electronic Form 1099-R sent to the IRS will have the full nine digit SSN for matching purposes.

Catching and preventing system errors

It is always a good practice to examine the Form 1099-R carefully.

OP&F recommends comparing this year’s Form 1099-R to last year’s Form 1099-R (if applicable). If any significant changes are noticed or if there are any questions about the amounts on the form, please contact OP&F’s Customer Service Department at 888-864-8363 to make sure all information is accurate.

In the rare instance that an error is found on Form 1099-R, OP&F is here to help. OP&F will work with the IRS and the applicable state tax office in an effort to abate interest and penalties associated with the error. OP&F will work diligently to correct any errors and to prevent them from happening again in the future.

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. The pick-up can be employee or employer paid and still be deferred. OP&F adopted model pick-up resolutions that must be used by participating employers electing to pick-up all or a part of the employee contributions for 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 contributions are picked-up by an employer and the model resolution has been approved by OP&F, the contributions will not be treated as basis recovery when the benefit is paid because those contributions have not yet been taxed.
Federal income tax withholding

Federal tax law requires OP&F to withhold federal income tax from monthly benefit payments unless the benefit recipient elects not to have withholdings apply. To change federal withholdings, submit a completed IRS Form W-4P withholding certificate for pension or annuity payments to OP&F. The federal Form W-4P is available upon request by calling OP&F’s Customer Service Department at 888-864-8363; this form is also available on the OP&F website at www.op-f.org.

State of Ohio income tax withholding information

Benefit recipients may elect to have Ohio income tax withheld from monthly benefit payments on a voluntary basis. This withholding is initiated by requesting a Withholding Certificate for the Ohio State Income Tax from OP&F by calling OP&F’s Customer Service Department at 888-864-8363; this form is also available on the OP&F website at www.op-f.org.

If a member moves out of state, OP&F does not automatically stop the Ohio state withholding. The member must submit a request, in writing, to stop Ohio tax withholding from their OP&F benefits.

Other state tax

OP&F only withholds Ohio income tax.

OP&F benefits subject to local school income taxes

OP&F benefits could be subject to local school district income taxes in Ohio. Members are responsible for these taxes if their local school district has an income tax, but OP&F is not specifically withholding the tax from the benefit. For information on forms and filing requirements contact the Ohio School District Income Tax Program, P.O. Box 182382, Columbus, OH 43218-2382, or call them at 800-282-1780.

Non-taxable income is reportable income and IRS inquiries

OP&F is required by the IRS to file a Form 1099-R for each person to whom a distribution of $10 or more has been made for the tax year. OP&F reports all distributions to the IRS as reportable income, regardless of the taxable or non-taxable nature of the benefits. Please contact the IRS directly for information on filing requirements.

If the distribution is non-taxable, then Box 2a is completed with $0.00. If a benefit recipient does not file an annual tax filing and reflect this non-taxable distribution they will probably receive a notice from the IRS because the IRS was unable to match the income reported by OP&F to the benefit recipient’s 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.
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 an on-duty partial disability benefit is based on their service credit, which is taxable as a service benefit. For more information about on-duty partial disability benefits see Page 11. Copies of the private letter ruling are available on the OP&F website at www.op–f.org. This letter is also available upon request by calling OP&F’s Customer Service Department at 888-864-8363.

Every year a request is made for the IRS to flag or put an alert on OP&F’s account for Form 1099-R. The flag or alert is to provide additional information to tax examiners that OP&F issues Form 1099–Rs with taxable amounts of $0.00 in Box 2a.

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 2b 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.

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.
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 members 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 utilize the method known as the Simplified Method.

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.

For more information on the Simplified Method or the Revised Simplified Method, refer to IRS Notice 98-2 or IRS Publication 575, Pension and Annuity Income.

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.

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. If the deceased member retired on or after Jan. 1, 2000, OP&F can also provide the estate with the total amount of basis applied, in addition to the total amount of basis remaining. These after-tax contributions may be recoverable as part of the final estate tax filings.

To make a request for information or to report incorrect information provided to OP&F by an employer, please contact OP&F’s Customer Service Department at 888-864-8363.

Please consult with a tax professional for any questions on itemizing this deduction.

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. Use age at the time of retirement to determine the appropriate annuity period.

**TABLE 1: Simplified Method**

Based on Single Life only prior to Jan. 1, 1998

<table>
<thead>
<tr>
<th>Age:</th>
<th>Months:</th>
</tr>
</thead>
<tbody>
<tr>
<td>55 and under</td>
<td>360</td>
</tr>
<tr>
<td>56-60</td>
<td>310</td>
</tr>
<tr>
<td>61-65</td>
<td>260</td>
</tr>
<tr>
<td>66-70</td>
<td>210</td>
</tr>
<tr>
<td>71 and over</td>
<td>120</td>
</tr>
</tbody>
</table>

**TABLE 2: Revised Simplified Method**

For benefit payments Jan. 1, 1998 to current, Single Life only

<table>
<thead>
<tr>
<th>Age:</th>
<th>Months:</th>
</tr>
</thead>
<tbody>
<tr>
<td>55 and under</td>
<td>360</td>
</tr>
<tr>
<td>56-60</td>
<td>310</td>
</tr>
<tr>
<td>61-65</td>
<td>260</td>
</tr>
<tr>
<td>66-70</td>
<td>210</td>
</tr>
<tr>
<td>71 and over</td>
<td>160</td>
</tr>
</tbody>
</table>

**TABLE 3: Revised Simplified Method**

For benefit payments Jan. 1, 1998 to current, Joint and Survivor Life only

<table>
<thead>
<tr>
<th>Combined age with spouse:</th>
<th>Months:</th>
</tr>
</thead>
<tbody>
<tr>
<td>110 and under</td>
<td>410</td>
</tr>
<tr>
<td>111-120</td>
<td>360</td>
</tr>
<tr>
<td>121-130</td>
<td>310</td>
</tr>
<tr>
<td>131-140</td>
<td>260</td>
</tr>
<tr>
<td>141 and over</td>
<td>210</td>
</tr>
</tbody>
</table>

* After Nov. 18, 1996 (but before Dec. 31, 1997) Prior to Jan. 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 2018 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.

Per Treasury Regulation 1.104-1(b) OP&F reports all distributions to an alternate payee, regardless of the nature of the original benefit as taxable income on 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.”

APPEALS AND RECONSIDERATIONS

If a member was notified during the year that their disability status changed due to an appeal or reconsideration, this may result in a change in their tax status and taxable income.

If a member’s appeal of a Board of Trustee action was approved, then their new award and disability status applies retroactively back to their initial Board approval date. This can result in their ability to amend their tax returns for open tax years with the IRS.

If a member’s application for partial grant reconsideration was granted, then their new award and disability status applies prospectively from the Board approval date forward. This can result in their ability to amend their tax return for the most recent tax year with the IRS.

Please contact OP&F if Form 1099-R does not reflect recent Board actions or if an amended Form 1099-R is needed for prior tax years.
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 reaches minimum retirement age. 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. Additionally, once an off–duty benefit recipient reaches minimum retirement age, their “Distribution code” will change from Code 3 to Code 2 or Code 7 if OP&F is calculating Box 2a taxable amount. For more information, see the section Distribution codes on Page 15.

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 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 after-tax contributions paid into OP&F.

Survivors are immediately eligible to receive basis recovery whether the deceased member had reached minimum retirement age or not.

<table>
<thead>
<tr>
<th>Age</th>
<th>Years of Service</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>48</td>
<td>25</td>
<td>N/A</td>
</tr>
<tr>
<td>48</td>
<td>15</td>
<td>and 25 years since hire date</td>
</tr>
<tr>
<td>62</td>
<td>15</td>
<td>and still contributing to OP&amp;F</td>
</tr>
<tr>
<td>62*</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* The IRS designated minimum retirement age is 62 for calculating basis recovery regardless of years of service, hire date or actively contributing to OP&F.
ON-DUTY PARTIAL DISABILITY BENEFITS

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

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 chart below for an example of how OP&F calculates the non-taxable portion of total benefits paid for an on-duty partial disability benefit recipient with 25 or more years of service.

Determining the non–taxable portion of on–duty partial disability benefits

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 benefit is taxable. Currently, the member receives $30,000 per year in benefits.

<table>
<thead>
<tr>
<th>64.3%</th>
<th>Disability benefit as a % of average annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>– 60%*</td>
<td>Non-taxable max % allowed for disability benefits</td>
</tr>
<tr>
<td>= 4.3%</td>
<td>Taxable % of average annual salary</td>
</tr>
<tr>
<td>4.3%</td>
<td></td>
</tr>
<tr>
<td>÷ 64.3%</td>
<td>Disability benefit as a % of average annual salary</td>
</tr>
<tr>
<td>= 6.6874%</td>
<td>Taxable ratio of benefit</td>
</tr>
<tr>
<td>6.6874%</td>
<td></td>
</tr>
<tr>
<td>x $30,000.00</td>
<td>Total benefits paid less Medicare B reimbursements</td>
</tr>
<tr>
<td>= $2,006.22</td>
<td>Taxable portion of benefit</td>
</tr>
<tr>
<td>$30,000.00</td>
<td>Total benefits paid less Medicare B reimbursements</td>
</tr>
<tr>
<td>– $2,006.22</td>
<td>Taxable portion of benefit</td>
</tr>
<tr>
<td>= $27,993.78</td>
<td>Non-taxable portion of member’s on-duty benefits</td>
</tr>
</tbody>
</table>

* Those who retired on or before Feb. 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.

<table>
<thead>
<tr>
<th>Type of Disability</th>
<th>Taxability</th>
<th>Box 1 (Gross Distribution)</th>
<th>Box 2</th>
<th>Box 5</th>
<th>Box 7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Permanent and Total Disability.</strong></td>
<td>Entirely excluded from taxable income.</td>
<td>Gross amount paid, including Medicare Part B reimbursement.</td>
<td>Box 2a Taxable Amount $0.</td>
<td>N/A</td>
<td>3</td>
</tr>
<tr>
<td><strong>Partial Disability, less than 25 years of service.</strong></td>
<td>Benefit is based on a percentage of disability.</td>
<td>Gross amount paid, including Medicare Part B reimbursement.</td>
<td>Box 2a Taxable Amount $0.</td>
<td>N/A</td>
<td>3</td>
</tr>
<tr>
<td><strong>Pre–minimum retirement age</strong></td>
<td>For members who have not reached minimum retirement age, the total amount of pension benefit that is based on years of service is taxable.</td>
<td>For members who retired on or after Nov. 19, 1996 – Gross amount paid, including Medicare Part B reimbursement.</td>
<td>Box 2a Taxable Amount will include the benefit portion based on service over 25 years.</td>
<td>N/A</td>
<td>3</td>
</tr>
<tr>
<td><strong>Post–minimum retirement age</strong></td>
<td>For members who have reached minimum retirement age, the portion of their monthly benefit that is based on years of service may contain an amount on which they have previously paid income tax.</td>
<td>For members who retired on or after Nov. 19, 1996 – Gross amount paid, including Medicare Part B reimbursement.</td>
<td>Box 2a Taxable Amount will include the benefit portion based on service over 25 years. Please note that the taxable amount may be reduced by the $ amount in box 5, basis recovery. *</td>
<td>N/A</td>
<td>2 or 7</td>
</tr>
</tbody>
</table>

* Partial Disabilities benefits awarded on or after Nov. 19, 1996, to members with 25 years of service or more, and who have reached minimum retirement age (see Page 11).

Box 2a Taxable Amount equals:
- Box 1 Gross Distribution
- Minus the non-taxable portion of the partial disability benefit based on the percentage of disability (see Page 11).
- Minus any Medicare Part B reimbursements (if applicable).
- Minus basis recovery (if applicable).
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. Statutory survivor benefits are always taxable unless the Board of Trustees qualified the original member as a line of duty death with no exception. These benefits are reported to the IRS on a Form 1099–R.

Line of duty deaths

If the member died in the line of duty and was not subject to an exception listed below, then these benefits paid to survivors (other than parents) are non–taxable. To qualify for this benefit, the line of duty death must have occurred in the state of Ohio and be covered by Ohio’s line of duty death benefit fund. The only determination 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. The “Taxable amount” in Box 2a will be $0.00. Please refer to Internal Revenue Code Section 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 a survivor 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 in the previous section. 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 original benefit to the member. For more information on this calculation, see the sections on disability benefits (off–duty and on–duty), starting on Page 10.

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 taxable 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 $0.00.

Lump Sum Death Benefit

Section 742.58 of the Ohio Revised Code provides a lump sum death benefit on the death of an OP&F member, who at the time of death is receiving a service retirement pension or disability benefit. 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.
OP&F makes distributions in the form of various types of withdrawals including:

- refunds;
- DROP distributions;
- re-employed 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 distributions made after the 2000 tax year. OP&F tracks the after-tax and pre-tax member contributions received 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.

The IRS defines a total distribution as one or more distributions within one tax year in which the entire balance of the member’s participant account is distributed.

Box 2b of Form 1099-R (Total distribution) does not refer to distributions from the member’s DROP account. The Total distribution box on the Form 1099-R only applies to the member’s accounts that maintain their police officer or firefighter’s participation and membership with OP&F. DROP is an optional accrual account. OP&F membership is not affected by DROP withdrawals. Therefore, Box 2b Total distribution will not be marked if the member received a lump sum distribution of the total DROP account.

If Box 2b is marked with an “X”, then the member either:

- Upon termination of employment, withdrew all of their accumulated employee contributions on deposit with OP&F and cancelled all of their member rights and benefits in OP&F and cancelled their total service credit with OP&F, or
- Received a re-employed lump sum distribution which closed their OP&F re-employed account.
**DISTRIBUTION CODES**

Box 7 of Form 1099–R contains a “Distribution code” as required by the IRS. These “Distribution code(s)” as used by OP&F are as follows.

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Early Distribution, Not Yet Age 59 ½, no known exceptions, a 10% IRS penalty may apply</td>
</tr>
<tr>
<td>2</td>
<td>Early Distribution, Not Yet Age 59 ½, exception applies</td>
</tr>
<tr>
<td>3</td>
<td>Disability Benefits</td>
</tr>
<tr>
<td>4</td>
<td>Death Payments to a Beneficiary</td>
</tr>
<tr>
<td>7</td>
<td>Normal Distribution and Over Age 59 ½</td>
</tr>
<tr>
<td>E</td>
<td>Excess Contributions or Purchase Refunds</td>
</tr>
<tr>
<td>G</td>
<td>Direct Rollovers and Rollover Contributions</td>
</tr>
</tbody>
</table>

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:

- 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 and Re-Employed);
- a distribution after separation from service that is part of a series of substantially equal periodic payments; or
- a distribution to an alternate payee.

If a member has not yet reached age 59 ½ and is receiving a normal periodic distribution, after separation from service, the exceptions under Code 2 applies to them. Code 1 is the code indicator to the IRS that a penalty should apply.
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, 2019 to all benefit recipients who received a cash distribution of $10 or more in 2018. Please allow 10 business days for the form to reach the address OP&F has on file. OP&F currently does not forward Form 1099-R because of the sensitive information it contains. If the form is not received, benefit recipients can obtain a copy of the 2018 Form 1099-R from OP&F’s secure member self service website. To request another copy be mailed, please contact OP&F’s Customer Service Department at 888-864-8363. If the benefit recipient has changed their address and OP&F does not have it on file, the Form 1099–R may have been mailed to the previous address. See “Ensuring Form 1099-R is received timely” on Page 4.

How do I request another Form 1099–R?

The 2018 Form 1099-R is available to benefit recipients on line by logging onto OP&F’s secure member self service website. Benefit recipients can also contact OP&F’s Customer Service Department at 888-864-8363 to request a duplicate copy. Please verify with the OP&F representative where the Form 1099-R should be mailed 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 most recent tax year. These up-to-date materials include a provision for the Public Safety Officer (PSO) exclusion from gross income of up to $3,000 for qualified health insurance premiums from income distributions made from an eligible retirement plan. This would include premiums of the OP&F sponsored health care plan, including medical, AARP, prescription drug, dental, and vision coverage. As a result of the significant changes under the Tax Cuts and Jobs Act of 2017 with regards to individual taxation and deduction rules, the Form 1040 and other individual tax returns are being revised by the IRS. Please consult with a tax professional for advice with any questions on this exclusion.

See Page 3 for more information.

Does this gross income exclusion for Health Insurance Premiums apply to survivors?

No. Once an eligible public safety officer is deceased this gross income exclusion stops.

Are my health care payments made with after tax dollars?

Yes. The payments being made to major medical, AARP, prescription, dental, and vision are with after tax dollars.

Do I qualify for the gross income exclusion if I am on my spouse’s health care plan?

The gross income exclusion is only available if the plan is deducting and then remitting to the insurance provider directly from the eligible public safety officer's pension benefit.
What should I do if I disagree with the information reported on my Form 1099–R?

Contact OP&F’s Customer Service Department at 888-864-8363 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 the benefit is fully non–taxable and no basis recovery is necessary.

How much of my benefit is taxable?

In an effort to better serve 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 was able to calculate taxable income, the amount the member 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?

Please contact the IRS directly for information on filing requirements.

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

OP&F will mail a Statement of Contributions to members upon request. Members can request a copy by contacting OP&F’s Customer Service Department at 888-864-8363.

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

- **Age–service retirees who turned age 59 ½ in 2018**

Members will receive two Form 1099–Rs because the IRS requires that the “Distribution code” change from a Code 2 to a Code 7 at that age.

- **More than one benefit type received**

Members and benefit recipients will receive a Form 1099–R for each type of benefit received in 2018.

- **Refund issued in 2018**

A member will receive a Form 1099–R for any refund of excess employee contributions or service or military purchases that did not enhance their benefit at retirement.

- **Active member or DROP withdrawal issued in 2018**

Members may receive a Form 1099–R for any withdrawal or rollover of contributions they received. If a member selected a combination of withdrawals and rollovers, they are printed on separate forms. If the member participated in DROP they could receive up to five Form 1099-Rs: one Form 1099-R for receiving a DROP monthly benefit, one Form 1099-R if they turned age 59 ½ in 2018 and were receiving the DROP monthly benefit, one Form 1099-R for all partial DROP withdraw benefits received before turning age 59 ½, one Form 1099-R if the member turned age 59 ½ in 2018 and after turning age 59 ½ received any partial DROP withdrawal benefits, and one Form 1099-R for a full DROP withdrawal benefit.

- **Off-duty disability benefit**

If a member is receiving an off-duty disability benefit and they reach the IRS’s minimum retirement age they will receive more than one Form 1099-R. The IRS requires that the “Distribution code” change from a Code 3 to a Code 7 at that age.

- **Appealed or reconsideration of pension benefits**

If a member appealed their disability status or had their disability status reconsidered and their pension type or award changed in 2018, they will receive more than one Form 1099-R.

- **Survivor, Beneficiary or Estate**

Upon application survivors, designated beneficiaries or estates of a deceased retired member will receive a lump sum death benefit of $1,000, and they will receive a separate Form 1099-R for this payment. All death withdrawals of the deceased member’s contributions will receive a separate Form 1099-R. Survivors may receive up to three Form 1099-Rs, one for the death benefit fund, one for the statutory benefit and one for the annuity benefit.
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**

  Members whose retirement benefits were finalized in 2018 had their year–to–date total on their benefit check start over at zero when they were switched from an interim payment to a final payment. The amount on Form 1099–R is the combined income of both accounts for 2018.

• **Partial disability**

  Only the portion of benefit based on years of service is taxable income and is noted on Form 1099–R, see the sections on disability benefits (off–duty and on–duty), starting on Page 10.

• **Medicare Part B reimbursements**

  Amounts for Medicare Part B reimbursement were only included if OP&F calculates the taxable amount and in such case, Medicare Part B reimbursements are reported as non taxable.

Can I have my Form 1099-R mailed to my temporary address?

Yes. The address on the Form 1099-R is used only to get it to the benefit recipient.

Why would I want to opt-out of receiving my Form 1099-R through the mail?

• If you travel, no matter where you are you can log into OP&F’s secure Member Self Serve web application and have access to your Form 1099-R(s).

• You would be helping OP&F save on the cost of mailing.

• Going electronic is environmentally friendly and convenient.

Do I have to do anything if I want to continue to receive my Form 1099-R(s) through the mail?

No. You do not have to do anything. You will continue to receive your Form 1099-R(s) through the U.S. Mail.

Why must I have an email address on file with OP&F to sign up for opting out of mailing my Form 1099-R?

OP&F will send you an email when your Form 1099-R is available on OP&F’s Member Self Serve. You will be able to find your Form 1099-R under the Member Documents link.

Why did I receive multiple emails from OP&F notifying me that my Form 1099-R is available on the Member Self Serve?

If you choose to opt-out of receiving your Form 1099-R through the mail, you will receive an email for each Form 1099-R issued. For example, if you are due to receive two Form 1099-Rs you will receive two emails from OP&F notifying you that your Form 1099-Rs are available on the Member Self Serve.

OP&F recommends on or after Jan. 31st logging into the Member Self Serve and reviewing the Member Documents link to confirm you have all of the Form 1099-Rs issued.

How can I tell if I’ve already opted-out or not?

You can review your current options on the Member Self Serve under the Document Preferences link.

If you have not previously opted-out, the Current Settings column will be U.S. Mail.

If you have previously chosen to opt-out of receiving your Form 1099-R via mail, the Document Preference Options column will be “opt-out of mailing and receive online” and the Current Setting column will be “Online”.

If you choose to opt-back into receiving your Form 1099-R by U.S. Mail, the Document Preference Options column will be “Receive mailings” and the Current Setting column will be “U.S. Mail”.

What should I do if I did not receive the email confirmation confirming that I’ve changed my document preferences?

Go to the Member Demographics link on the Member Self Serve, verify your email address is correct, and edit it if needed, then re-try changing your Document Preferences. If you still do not receive an email confirming you’ve changed your document preference, please call OP&F’s Customer Service Department at 888-864-8363.
What will happen if I die and I’ve made the choice to receive my Form 1099-R from OP&F’s secure Member Self Serve web application?

When a report of death is received, and the date of death is entered into OP&F’s pension system, the system is programmed to print and mail your Form 1099-R(s). Also when a date of death is received, the OP&F Customer Service team will verify the mailing address in an effort to ensure your survivor or executor will timely receive all pertinent information.

How will I know if I’ve received all of my Form 1099-Rs?

OP&F is required by law to have all Form 1099-Rs available by Jan. 31st.

OP&F recommends on or after Jan. 31st logging into the Member Self Serve and reviewing the Member Documents link to confirm you have all of the Form 1099-Rs issued.

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 tax questions at 800–829–1040.

On the Internet

Visit the IRS online at www.irs.gov.