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About This Newsletter

PERA produces a Retiree Update newsletter every December to inform all PERA retirees and benefit recipients (under both the PERA and DPS benefit structures) about important year-end benefit and tax information.

Annual Increase Reminder

Senate Bill 10-001 changed the amount and timing of the annual increase to PERA benefits, which applies to benefit recipients under both the PERA and Denver Public Schools (DPS) benefit structures. Remember, PERA annual increases are paid to eligible benefit recipients in July.

Retirees in the PERA benefit structure who began membership before January 1, 2007

- The amount of the annual increase will be 2 percent per year unless PERA has a negative investment year, at which point the annual increase for the following three years will be the lesser of 2 percent or the average of the monthly CPI-W amounts for the preceding calendar year.
- A negative investment year is a year in which PERA investments have a rate of return that is less than zero percent.

Retirees in the PERA benefit structure who began membership on or after January 1, 2007

- The amount of the annual increase will be the lesser of 2 percent or the average of the monthly CPI-W amounts for the prior calendar year. In no case can the sum of the annual increases paid to benefit recipients of a division exceed 10 percent of the divisional annual increase reserve.

Retirees in the DPS benefit structure (regardless of when membership began)

- The amount of the annual increase will be 2 percent per year unless PERA has a negative investment year, at which point the annual increase for the following three years will be the lesser of 2 percent or the average of the monthly CPI-W amounts for the preceding calendar year.
- A negative investment year is a year in which PERA investments have a rate of return that is less than zero percent.

PERA will know the investment return for 2011 in late spring/early summer when the audited financial results are available.

Full details on the annual increase are available on the PERA Web site by visiting www.copera.org, clicking on "Retirees/Benefit Recipients," and then choosing "Annual Benefit Increases" from the bar on the left side of the screen. You may also review the *Annual Increases* fact sheet for more information.

Sign Up for Legislative Alerts

With the 2012 legislative session just around the corner, consider signing up to receive legislative alerts from Colorado PERA. By receiving these e-mail alerts, you'll stay informed on legislative proposals that impact PERA and receive information on how you can contact

your legislators to share your opinions on these issues.

To sign up for legislative alerts, visit www.copera.org and click on the "Legislation" link, then select "Register for PERA Alerts."

Income Tax Withholding

Every year, Colorado PERA provides the following information to help you understand how federal and state income tax rules affect your PERA benefit. This information is not intended as tax advice. Specific questions about your taxes should be directed to the IRS, the Colorado Department of Revenue, or your personal tax consultant.

Federal Income Tax—PERA Benefit Structure

- Colorado PERA benefits are subject to federal income tax.
- If you made PERA contributions before July 1, 1984, or purchased service credit using tax-paid (after-tax) money, part of your benefit will not be taxable income to you. (This nontaxable amount appears in Box 5 on your 1099-R.)
- PERA determines the taxable amount of your benefit each year by using formulas provided by the IRS and reports that amount to you each January on IRS Form 1099-R.
- If you did not have PERA contributions prior to July 1, 1984, and you did not purchase service credit with tax-paid dollars, your entire benefit is reported as taxable income.
- If you are under age 65 and totally disabled, you may be eligible for a special federal income tax credit (review IRS Schedule R and Publication 524); even if you qualify for this credit, PERA must still report your income.
- Annual increases and any supplemental benefits you receive are fully taxable.

Federal Income Tax—Denver Public Schools (DPS) Benefit Structure

- Colorado PERA benefits are subject to federal income tax.
- You may have a nontaxable portion of your benefit consisting of your DPSRS tax-paid contributions made before January 1, 1986, and after-tax dollars used to purchase service credit.
- If you retired before July 1, 1986, and used the Three-Year Recovery Rule, your entire benefit each year is taxable.
- If you retired before January 1, 1987, and did not use the Three-Year Recovery Rule, a fixed portion of your annual benefit is tax-free for your lifetime.
- If you retired after 1986, retirement benefits you receive after you recover your tax-paid contributions are fully taxable.
- If you retired prior to January 1, 1991, the taxable portion of your benefit was not calculated by DPSRS.



- For retirements effective January 1, 1991, and later, the taxable portion of your benefit was calculated using the Simplified General Rule. It is possible that there was not enough information in your file to calculate the taxable portion, in which case your 1099-R will state, "Taxable amount not determined."
- Annual increases and any supplemental benefits you receive are fully taxable.

Federal Withholding Choices—Applies to Both PERA and DPS Benefit Structures

- Examine the amount of your income tax withholding each year to make sure you have enough withheld.
- Penalties may be incurred under the estimated tax payment rules if sufficient tax is not withheld from your monthly benefit and your estimated tax payments are not adequate.
- Use the *Withholding Preference Form* in the *Taxes on PERA Benefits* brochure to instruct Colorado PERA how to handle federal income tax withholding. You have the following options:
 - Withhold nothing.
 - Withhold federal income tax based on the federal tax tables using your marital status and the number of withholding exemptions you specify.
 - Withhold federal income tax based on the federal tax tables using your marital status and the number of withholding exemptions you specify plus an additional dollar amount.

- Withhold an exact dollar amount.
- Withhold a fixed percent of your benefit.
- If you did not provide PERA with withholding instructions, PERA was required to withhold federal income tax if your gross taxable monthly benefit was \$1,583 or more in 2011. (The required federal withholding was at a rate for a married individual claiming three exemptions.)
- Your December PERA benefit statement will include your current federal withholding status.
- Even if PERA did not withhold taxes for you, you still may owe income tax and should complete the appropriate federal tax forms.

Colorado State Income Tax—Applies to Both PERA and DPS Benefit Structures

- Colorado residents who are age 55 through 64 can take advantage of a Colorado State income tax exclusion for up to \$20,000 of pension income received each year; Colorado residents who are age 65 and over have a \$24,000 pension income exclusion. The retiree's age on December 31 is used to determine the exclusion amount for that year. Pension income includes PERA benefits and any other retirement income you may receive.
- If you made PERA contributions under the PERA benefit structure between July 1, 1984, and December 31, 1986, or contributions under the DPS benefit structure between January 1, 1986, and December 31, 1986, please review the Colorado Department of

Revenue's publication, *FYI—For Your Information: Subtraction from Income for Recipients of PERA or Denver Public Schools Retirement Benefits*.

- If you live outside of Colorado, you will need to check with your state's revenue agency to obtain details about any state income taxes you may owe.
- If you move outside of Colorado and have previously designated Colorado State income tax be withheld from your benefit payment, you must instruct PERA to stop this withholding if it no longer applies. This withholding will not be removed automatically.

Colorado State Withholding Choices—Applies to Both PERA and DPS Benefit Structures

Colorado PERA will withhold Colorado State income tax (if requested) and your withholding options are similar to federal withholding options. PERA does not withhold income tax for other states due to the variety of tax regulations for each state.

If you have specific questions regarding your State income tax return, contact the Colorado Department of Revenue (303-238-7378 or www.taxcolorado.com) or consult with a tax adviser.

Income Tax Exemption for Survivors of Public Safety Officers Killed in the Line of Duty

If you are receiving a survivor benefit due to the death of a public safety officer who was killed in the line of duty, your benefit may be exempt from federal income tax. Consult a tax adviser to determine if you qualify for this exemption under Section 101(h) of the Internal Revenue Code. If you believe you qualify, please contact PERA so that your withholding and tax reporting may be adjusted. PERA may require you to submit documentation to demonstrate that you qualify.

Reminder

The Withholding Preference Form is available to complete online using your PERA PIN/User ID if you would like to make any changes to your tax withholdings.

Upcoming Changes to PERA Benefit Payments

When you review your upcoming PERA benefit statements, please keep in mind the following information about benefit changes:

December 30, 2011

Net amount of your benefit will reflect the 2012 PERACare and Medicare Part B premiums (if applicable).

January 31, 2012

Benefit amount will reflect the 2012 tax tables that are used to calculate withholdings (if applicable). You may review your withholding instructions by logging into your account on

www.copera.org and selecting "Deductions" under the Inquiry drop-down menu. You can also preview your January 2012 benefit information, including new tax deductions, after December 25 by selecting "Payment Information" under the Inquiry menu. Changes to your withholding instructions must be received by January 15 to be effective for your January benefit payment. You may submit changes electronically by logging into your account, or you may use the form at the back of the *Taxes on PERA Benefits* booklet.

Understanding Your 1099-R

Each year, Colorado PERA provides benefit recipients with personalized year-end tax information. This information is provided on IRS Form 1099-R, which is mailed to each PERA benefit recipient by January 31.

Listed below is a sample 1099-R and the explanations that may be printed on a 1099-R for a benefit recipient under either the PERA or Denver Public Schools (DPS) benefit structures.

| Form 1099-R | | OMB No. 1545-0119 | <input type="checkbox"/> CORRECTED (if checked) | 2011 Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. | |
|--|---|---|--|--|--------------------|
| PAYER'S Federal identification number 84-6220742 | | RECIPIENT'S identification number 111-11-1111 | | Form 1099-R | |
| PAYER'S name, street address, city, state, ZIP code and phone number PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (800) 759-7372 1301 PENNSYLVANIA STREET DENVER CO 80203 | | | | | |
| 1 Gross distribution 13,003.04 | 2a Taxable amount 13,003.04 | 2b Taxable amount not determined | Total Distribution | | |
| 3 Capital gain (included in box 2a) | 4 Federal income tax withheld 825.76 | 5 Employee contributions/Designated Roth contributions or insurance premiums .00 | 6 Net unrealized appreciation in employer's securities | | |
| RECIPIENT'S name, street address (incl. apt. no.), city, state and ZIP code JOHN J. JOHNSON 1301 PENNSYLVANIA DENVER CO 80203-1234 | | | | 7 Distribution code(s) 7 | IRA/SEP/ SIMPLE |
| | | | | 8 Other | % |
| 9a Your percentage of total distribution | 9b Total employee contributions | 10 Amount allocable to IRR within 5 years | 11 1st year of desig. Roth contrib. | | |
| 12 State tax withheld 300.00 | 13 State/Payer's state no. CO/21-97092 | 14 State distribution | Account number (see instructions) 1-123456 | | |
| 15 Local tax withheld | 16 Name of locality | 17 Local distribution | Copy B Report this income on your Federal tax return. If this form shows Federal income tax withheld in Box 4, attach this copy to your Federal tax return. | | |

This information is being furnished to the Internal Revenue Service. Department of the Treasury-Internal Revenue Service

Payer's Federal identification number

PERA's tax identification number (84-6220742) with the Internal Revenue Service (IRS).

Recipient's identification number

Your Social Security number; since information is provided to the IRS, your Social Security number must appear in its entirety.

Box 1—Gross distribution

Total benefit amount paid to you by PERA in the tax year noted.

Box 2a—Taxable amount

Total taxable benefits you received from PERA in the tax year noted. If you have previously taxed contributions in your PERA account (regular contributions made before July 1, 1984, in the PERA benefit structure, and regular contributions made before January 1, 1986, in the DPS benefit structure, and after-tax money used to purchase service credit), PERA uses a cost recovery method recognized by the IRS to amortize the nontaxable dollar amount each year. If you do not have any previously taxed contributions, your entire benefit amount is taxable.

Box 2b—Taxable amount not determined/Total distribution

Unless you took a withdrawal/refund of your PERA member contribution account, which closed out your PERA account from any future benefits being paid to

you, these boxes will be blank. If you have an "X" in this box and Box 2a is blank, you will need to determine the taxable portion of your annual benefit.

Box 3—Capital gain (included in Box 2a)

This box will have a dollar amount reported if you were born before January 2, 1936, and you took a withdrawal/refund of your PERA account instead of choosing a monthly benefit.

Box 4—Federal income tax withheld

Federal income tax withheld from your PERA benefit in the tax year noted.

Box 5—Employee contributions/designated Roth contributions/insurance premiums

The nontaxable amount of benefits you received in the tax year noted (the difference between Box 1 and Box 2a). If you have previously taxed contributions in your PERA account, PERA uses a cost recovery method recognized by the IRS to amortize the nontaxable dollar amount each year and reports it in Box 5. Do not report this amount on your tax returns. This is not the premiums you paid to PERA for health care or life insurance. If you need the amount of your insurance premiums, refer to your year-end benefit check or EFT statement. If Box 5 is blank and there is an "X" in Box 2b, you must determine the nontaxable portion of your annual benefit.

Box 6—Net unrealized appreciation in employer's securities

This box does not apply to PERA benefit recipients receiving a monthly benefit or who chose a withdrawal/refund.

Box 7—Distribution code

The code applicable to your benefit as defined by the IRS:

- "2"** If you are receiving a monthly PERA service retirement benefit; you are younger than age 59½; and it is not a disability retirement.
- "3"** If you are receiving a disability retirement benefit.
- "4"** If you are receiving a monthly PERA benefit based on the death of a retiree or active PERA member. Refund of contributions if the retiree and cobeneficiary (if applicable) died before all of the contributions were distributed; the balance of the contributions go to the named beneficiary.
- "4G"** If the retiree and cobeneficiary (if applicable) died before all of the contributions were distributed; the balance of the contributions are rolled over to a qualified account.
- "7"** If you are receiving a monthly PERA service retirement benefit; you are age 59½ and over; and it is not a disability retirement.

Box 8—Other

Does not apply to PERA benefit recipients.

Box 9a—Your percentage of total distribution

Does not apply to PERA benefit recipients.

Box 9b—Total employee contributions

The total tax-paid contributions in the member account at the time of retirement. This will only print for the first year of retirement. This is the figure used to calculate the taxable portion of the benefit based on the IRS's "Simplified Method" (prorates the previously taxed dollars of your benefit over a specific number of payments as warranted by the IRS; for more information on this rule, contact the IRS for a copy of its publication 575). See Box 5 description for additional information.

Box 10—Amount allocable to IRR within 5 years

Since PERA does not participate in any Roth IRA programs, in-plan Roth rollovers (IRR) do not apply to PERA benefit recipients.

Box 11—First year of designated Roth contributions

Does not apply to PERA benefit recipients since PERA does not participate in any Roth IRA programs.

Boxes 12—State tax withheld

Colorado State tax withheld from your benefit in the tax year noted.

Box 13—State/Payer's state no.

The state in which income tax was withheld. (Note: PERA only withholds state taxes for Colorado.) Payer's State no. is used by PERA for filing purposes with the State Department of Revenue.

Boxes 14-17—Do not apply to PERA benefit recipients

Since PERA does not take any withholding for local taxes, these boxes do not apply.

Account number

This is your PERA-assigned account number which appears on your benefit statement or benefit check as well as other correspondence you may receive from PERA.

1099-R Mailing Information

- PERA mails each benefit recipient a 1099-R by January 31.
- Please allow five business days after January 31 for postal delivery before calling PERA if you have not received your 1099-R.
- Your 1099-R will be sent to your home address on file at PERA.
- To have your 1099-R forwarded to another address, PERA must receive your signed request in writing by January 6, 2012.

Denver Public Schools (DPS) disability retirees who turned age 65 in 2011 and qualified for a recalculation to regular retirement will receive two 1099-Rs this year. PERA must change the distribution code in Box 7 when you turn age 65 from a disability retiree (distribution code 3) to a regular retiree (distribution code 7).

Mailing Schedule of PERACare Benefits Booklets/ID Cards

Identification (ID) cards and benefits booklets are mailed by the various PERACare plans and not PERA. ID cards are mailed in mid- to late December. Even though the plans attempt to allow sufficient time to have ID cards in your hands by January 1, 2012, holiday or weather-related mail delays may occur. If you need care after January 1 and have not yet received your ID card, your provider can verify coverage through your plan's toll-free number. See the inside front covers of the 2012 *PERACare Health Program* booklets for phone numbers.



Anthem

- Only new enrollees will receive plan booklets and ID cards.
- Plan booklets will be available in early January 2012.

Caremark

- New enrollees will receive benefits booklets and ID cards by late December 2011.
- ID cards are included in plan booklets; they are not a separate mailing.

CIGNA Dental

- Only new enrollees will receive benefits information.
- New HMO enrollees will receive ID cards, a coverage booklet, and a schedule of charges in mid-December 2011.
- New PPO enrollees will receive a coverage booklet in early January 2012.
- PPO ID cards are not issued, but new PPO enrollees will receive a letter from CIGNA instructing how to access care and obtain an ID number if requested.

Delta Dental

- Only new enrollees will receive benefits booklets.
- ID cards are not issued, since dentists can verify coverage online with Delta Dental.

Kaiser Permanente

- Only new enrollees will receive ID cards.
- The 2012 *Evidence of Coverage* (benefits booklet) was mailed to existing Medicare members in October 2011.
- 2012 *Evidence of Coverage* booklets will be sent to new Medicare enrollees by early January 2012.
- For pre-Medicare members, the 2012 *Evidence of Coverage* (benefits booklet) will be accessible online no later than January 20, 2012. A postcard notification announcing this feature will be sent to all members, and members may return the postcard to request a printed copy.

Rocky Mountain Health Plans Medicare Plan

- 2012 benefits booklets were mailed to existing members in October 2011.
- ID cards will be issued to all enrollees in December 2011.
- Benefits booklets will be mailed to new enrollees in late December 2011.

UnitedHealthcare Medicare Plan

- 2012 benefits information and ID cards will be mailed to all enrollees by late-December.

VSP

- VSP does not mail booklets or ID cards.
- Inform your eye doctor that you are a VSP member and the doctor's office will notify VSP.
- Benefits information can be accessed through VSP's Web site (www.vsp.com) or toll-free customer service number (1-800-877-7195).

To protect your personal information, Social Security Numbers are not displayed on ID cards.

Changes Regarding Reporting by PERA Retirees Who Are Independent Contractors

PERA has previously required all retirees performing services as an independent contractor to complete a *Disclosure of Compensation* form to indicate to PERA and the PERA employer the amount of compensation received for services rendered.

Effective January 1, 2012, the following reporting requirements will go into effect for retirees performing services to a PERA employer as an independent contractor:

- You are not required to complete a *Disclosure of Compensation* form if, for tax purposes, the PERA employer reports compensation paid to you or your company under your Social Security number.
- You are required to complete a *Disclosure of Compensation* form if either of the following is true:
 - For tax purposes, the PERA employer reports compensation paid to you or your company under a tax identification number different from your Social Security number.
 - You are performing services through an affiliated party.

Affiliated Party

A retiree is working through an affiliated party if the owner of the company is:

- Any person who is a named beneficiary or cobeneficiary on the Colorado PERA retiree's account.
- Any person who is a relative by blood or adoption (includes parents, siblings, children, and grandchildren) of the working Colorado PERA retiree.
- Any person who is a relative by marriage (includes spouse, spouse's parents, stepparents, stepchildren, stepsiblings, and spouse's siblings) of the Colorado PERA retiree.
- Any person or entity with whom the Colorado PERA retiree has an agreement to share or profit from the performance of services for a Colorado PERA employer in addition to their regular salary or compensation.



Disclosure of Compensation Form Example for Retirees Working for an Affiliated Party

In the example below, the retiree must submit the *Disclosure of Compensation* form:

A PERA retiree works for company X, which is owned and operated by the PERA retiree's spouse (an affiliated party). A PERA employer contracts with company X and agrees to pay \$50,000 to company X for the work completed. The PERA retiree was not specifically hired to do the work, but does part of the work contracted for by the PERA employer.

It is the retiree's responsibility to submit the *Disclosure of Compensation* form to the PERA employer and to PERA, indicating how much he or she was paid by company X for the work on the \$50,000 contract.

If the PERA retiree is paid \$5,000, the PERA retiree must disclose that amount to the PERA employer and to PERA. The PERA employer must then submit the appropriate employer contribution to PERA. PERA will calculate the appropriate working retiree contribution and offset the PERA retiree's benefit.

Remember, you are also required to complete a *Disclosure of Compensation* form if, for tax purposes, the PERA employer reports compensation paid to you or your company under a tax identification number different from your Social Security number.

2012 Benefit Check Mailing and Direct Deposit Dates

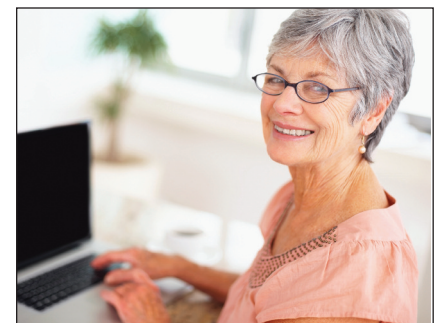
The following are the dates benefit checks will be mailed and direct deposit accounts will be credited in 2012:

January 31
February 29
March 30
April 30
May 31
June 29
July 31
August 31
September 28
October 31
November 30
December 31

A calendar with additional PERA-related dates is available on PERA's Web site at www.copera.org. Click on "Retirees/Benefit Recipients," then select the "Calendar of Events" link in the bar on the left side of the screen.

Sign Up for EFT

There are a number of Colorado PERA retirees who are still receiving benefit checks in the mail every month. An excellent alternative to paper checks is electronic funds transfer (EFT) or direct deposit.



It's a safe and easy way to get your PERA benefit each month, and there's no chance your check will be stolen, lost, or delayed in the mail.

Complete an *Authorization for Direct Deposit of Benefit* form today. The *Authorization for Direct Deposit of Benefit* form is in the *Direct Deposit by Electronic Funds Transfer (EFT)* brochure on the PERA Web site. You may also call PERA's Customer Service Center to order the brochure and form.

Sign up for EFT today, and stop waiting at the mailbox!