



EMPLOYEES' RETIREMENT SYSTEM OF
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WINTER 2009

ADDITIONAL WITHHOLDING FOR PENSIONS FOR 2009 AND 2010

The federal economic stimulus plan signed into law last year provided for a "Make Work Pay" tax credit of \$400 for individuals and \$800 for families. Under the law, the "Make Work Pay" tax credit only applies to "earned income" and pension benefits are not considered earned income, which means the tax obligation for pension benefits does not change. This results in a situation for retirees and beneficiaries in which the tax withholding amount on their benefit payment goes down, while their tax obligation has not actually been reduced. This situation could result in underpayment of taxes during the year that would have to be made up when filing income tax returns the following year, along with the possibility of penalties for withholding of taxes during the year. The IRS issued additional withholding tables last year that apply only to retirement benefits. ERSRI used these additional tables effective with the June 30, 2009 pension payment and will again apply them in 2010. According to the IRS, this change will help some pensioners avoid a smaller refund or, in limited situations, a balance due. However, the additional withholding table for pensions is based on the pension payment BEFORE subtracting withholding allowances. While the IRS points out that withholding on pension payments will be automatically adjusted with no action needed by pensioners, ERSRI encourages members who believe their current withholding is not appropriate for their personal situation to perform a quick check by using the IRS withholding calculator on www.IRS.gov or directly consult the IRS or a tax advisor. A link to the calculator is available on our homepage www.ERSRI.org

These new rates will not affect you if you have told ERSRI to withhold a set dollar amount from your check.

If you wish to tell us specifically how much you would like withheld, based on this new information and your individual circumstances, you may print out and send in a Certificate of Withholding Preference Or Withholding Tax Change form or log on to the secure member section of the ERSRI website www.ERSRI.org and make your necessary changes. You may also call our customer service line at 401-457-3900. This form can be filed at any time.

SCHEDULE B AND TEACHER SURVIVOR BENEFIT (TSB) COLA FOR

Schedule B Members

This percentage increase in benefits is applicable for Schedule B retired participants (State Employees and Teachers only) beginning with the month following their third anniversary of retirement. The increase is calculated as the increase in the September CPI-U for the year prior to the COLA, but not more than 3.0%. The following is the COLA for 2010:

Effective Date	CPI-U September 2008	CPI-U September 2009	Calculated Increase	2010 Effective COLA
2010	218.78	215.97	0.0%	0.0%

For Schedule B retirees, the COLA amount will be 0.0% if they are scheduled to receive an increase which occurs on a date in 2010. *Please note that all disabled retirees, whether under Schedule A or Schedule B, always receive a 3.0% increase in January as well as all eligible schedule A regular service retirees.*

TSB Members

Current eligible beneficiaries of Teacher Survivor Benefits receive the same COLA granted to members of Social Security. The increase scheduled to occur in January 2010 for members of Social Security is 0.0%.

READING YOUR 1099-R FORM FOR 2009

Your 2009 1099-R form was mailed to you at the end of January. The form provides the details concerning the benefit distributions you received during the 2009 tax year and should be used in filing your 2009 federal income taxes. If you have not received your 1099-R by February 15th, please call ERSRI at 457-3900 to receive a copy.

For more information on your 1099-R, visit the Internal Revenue Service online at www.irs.gov, or call 800-829-1040.

Box 1 contains the sum of all the benefit payments (before taxes) you received in 2009.

Box 2a contains the sum of your 2009 benefit payments minus your non-taxable **monthly exclusion amounts**.

Box 4 contains the total amount of money withheld from your benefit payments in 2009 based on your withholding election.

Box 5 contains the sum of your non-taxable **monthly exclusions** for 2009.

Box 7 contains the IRS code identifying the type of distribution you received. The list below provides an explanation of the codes used by ERSRI.

PAYER'S name, street address, city, state, and ZIP code		CORRECTED (if checked)		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
		1 Gross distribution		2009		Form 1099-R	
		2a Taxable amount					
		2b Taxable amount not determined		Total 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 return.	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)		4 Federal income tax withheld			
RECIPIENT'S name		5 Employee contributions / Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities			
Street address (including apt. no.)		7 Distribution code(s)		8 Other		This information is being furnished to the Internal Revenue Service.	
City, state, and ZIP code		9a Your percentage of total distribution		9b Total employee contributions			
1st year of desig. Roth contrib.		10 State tax withheld		11 State/Payer's state no.		12 State distribution	
Account number (see instructions)		13 Local tax withheld		14 Name of locality		15 Local distribution	

The "monthly exclusion amount" or "monthly exclusion" is the part of your benefit on which you have already paid taxes. If you made any after-tax contributions to your ERSRI account — for example, regular contributions you made before 1986 or through a buyback of service time — then you do not have to pay taxes on that part of your benefit. The non-taxable portion of your benefit is listed in **Box 5**.

The codes below are found in **Box 7** and indicate the type of benefit being reported to IRS:

- 1 – Partial service retirement distribution being paid to a member who is under age 59 1/2 on December 31st of the tax year being reported.
- 2 – Service retirement or Pre-Retirement death benefit distribution being paid to a member who is under 59 1/2 on December 31st of the tax year being reported
- 3 – Disability retirement distribution.
- 4 – Indicates the amount reported is a death benefit lump sum distribution made to a decedent's beneficiary or survivor, including their trust or estate.
- 4G – Indicates the amount reported is a death benefit distribution which was a direct rollover distribution to a tax-sheltered annuity or a traditional IRA.
- 7 – Normal distribution
- 7A – For participants born before January 2, 1936, or their beneficiaries, to indicate the distribution may be eligible for the 10-year tax option method of computing the tax on lump-sum distributions (on Form 4972, Tax on Lump-Sum Distributions)
- G – Distribution Code G represents amounts that you elected to roll over to another qualified retirement account, such as an Individual Retirement Account (IRA). ERSRI transferred these funds directly to the financial institution as directed by you.

Special Note: The address shown on the 1099-R which you will receive will be the current address of record which the Employees' Retirement System of Rhode Island has on file when the forms are processed in January. If this address is incorrect, you may change the address on-line at www.ERSRI.org or submit a written request with your signature to change the address.