



Retirement annuities and the IRS

Taxes are a key component of retirement planning. As with anything involving the IRS, federal taxes on annuities are complicated. Both CSRS and FERS annuity payments are subject to federal tax, except for the amount contributed by the retiree.

Upon retirement, the Office of Personnel Management (OPM) will calculate what portion of each monthly annuity check will be non-taxable. The balance is subject to federal tax.

IRS Publication 721, "Tax Guide to U.S. Civil Service Retirement Benefits," should be consulted if you are doing your own taxes or are having a tax preparation service do them for you. Publication 525, "Taxable and Non Taxable Income," is the publication that will help you compute the taxable and non-taxable amounts of your annuity. Publication 721 and Publication 525 can be ordered from the IRS, or printed from the IRS website at www.irs.gov. These publications are also very useful to those who retired with a disability. Part III of Publication 721 contains the rules for "disability retirement and credit for the elderly or the disabled."

At the end of each year, OPM will report to the Internal Revenue Service the appropriate taxable amounts. This amount is also shown on Form 1099R, sent to retirees each year by the Office of Personnel Management. These forms should have already been received in the mail. If you did not receive Form 1099R and have a computer, you can utilize the OPM website at www.opm.gov to make changes and/or obtain a duplicate form. Those of you without a computer can call OPM at 1-800-409-6528 to obtain a duplicate copy. Be sure to have both your CSA number and personal identification number (PIN) available at the time of your call.

State tax laws vary, and while some states are completely tax-free to annuitants, others may tax all or a portion of your annuity income. You should contact your state tax authority for a detailed explanation of how you are affected as a retiree. There are currently 33 states participating in OPM's state withholding tax program. It is easy to understand why the states of Florida and Nevada have such a high percentage of retired people wanting to reside there. Not only is the weather a factor, but neither state has an income tax.

Now you know one of the reasons why those residents of Nalcrest are always smiling!

For your assistance, the following states participate in the OPM's state withholding tax program:

Arizona	Louisiana	North Carolina
Arkansas	Maine	Ohio
California	Maryland	Oklahoma
Colorado	Michigan	Oregon
Connecticut	Minnesota	Rhode Island
Delaware	Mississippi	South Carolina
DC	Missouri	Utah
Georgia	Montana	Vermont
Idaho	Nebraska	Virginia
Indiana	New Jersey	West Virginia
Iowa	New Mexico	Wisconsin

Premium Conversion: While a new bill has not yet surfaced, I have hopes of seeing the premium conversion legislation introduced in the 109th Congress in the near future. Passage of such legislation would mean some tax savings to those of us who are now retired. This legislation was introduced to amend the Internal Revenue Code to allow federal, civilian and military retirees to pay their health insurance premiums on a pre-tax basis and to allow a deduction for TRICARE supplemental premiums. The House bill introduced by Tom Davis (VA) in last year's 108th Congress, HR 1231, had 342 co-sponsors. The Senate version introduced by John Warner (VA), S 623, had 57 co-sponsors. With such a large number of co-sponsors on these bills, it is hard to conceive that passage never occurred. It is our hope that we can achieve passage of this important legislation in this session of Congress and thus provide this long-overdue advantage to our retired members. ☒

NALC Retirement Department

Toll-free number: 1-800-424-5186

**Available Monday, Wednesday and Thursday only
from 10 a.m. to noon and from 2 to 4 p.m. (Eastern time)**
*This toll-free number is answered ONLY during these hours
on the days indicated.*

If your question concerns hospitalization and you are a member of the NALC Health Benefit Plan, call 1-888-636-6252.