Tax Information and Legal Matters

This section covers tax information and legal matters that affect your benefits.

Income Tax Withholding

Under federal and California law, CalSTRS will withhold income tax from the taxable portion of your benefit unless you choose not to have taxes withheld. To do that, you must complete an Income Tax Withholding Preference Certificate (included in the Service Retirement Application). View and update your tax withholding preferences on myCalSTRS. Elections made the first of the month are effective immediately.

You may also request a change to your income tax withholding by completing the Income Tax Withholding Preference Certificate form. Your election will take effect within 60 days after CalSTRS receives your form.

If you do not have taxes withheld or if you do not have enough taxes withheld, you may need to make estimated tax payments. Generally, your withholding or estimated tax payments, or the total of both, must cover at least 90 percent of your total tax liability for the current year. If you fail to meet the 90 percent limit, you may have to pay penalties.

A portion of your benefit may not be taxable if you made previously taxed contributions to CalSTRS during your career. CalSTRS uses the Simplified Method established by the IRS to determine the taxable portion of your benefit. You may use any acceptable method when reporting to the IRS.

See Pension and Annuity Income, IRS publication 575, available at irs.gov or Pension and Annuity Guidelines, FTB publication 1005, from the California Franchise Tax Board at ftb.ca.gov.

Periodic Payments

Unless you choose not to withhold taxes or specify different income tax withholdings, CalSTRS will withhold income tax on your periodic payments—those payments you receive in installments at regular intervals—as if you were married with three allowances.

Eligible Rollover Distributions

CalSTRS withholds income tax from eligible rollover distributions made to you, including a one-time lump-sum distribution, the one-time death benefit or the benefit accrued and unpaid on the date of death of a CalSTRS benefit recipient (non-periodic payments). Federal tax withholding from eligible rollover distributions is mandatory and set at 20 percent. If you choose to have California state income tax withheld, CalSTRS will withhold at 2 percent.

See the Tax Considerations for Rollovers booklet, available at CalSTRS.com.
Tax Withholding for Out-of-State Residents

Under federal law, if you’re not a California resident, you are not subject to California state tax. However, your CalSTRS benefits may be subject to taxes in the state where you live. CalSTRS cannot withhold taxes for another state.

In addition, CalSTRS will not withhold California state income taxes from your benefit payment if you live outside California unless you complete the Income Tax Withholding Preference Certificate.

If you or your beneficiaries reside outside the U.S. or its possessions, CalSTRS must withhold federal income tax from your payments.

Contact the IRS, the California Franchise Tax Board or a qualified tax adviser for information relevant to your individual situation. For general information on withholding tax from CalSTRS benefits, go to CalSTRS.com.

Internal Revenue Codes Affecting Benefits

Section 401(a)(9)

Internal Revenue Code section 401(a)(9) and the California Education Code require CalSTRS to begin a minimum distribution of your benefits no later than April 1 of the calendar year following the year you reach age 70½, provided you’re no longer performing CalSTRS creditable service. For example, if your birthday is October 5, you would turn 70½ on April 5, so you would have until April 1 of the following year before you would be required to take a minimum distribution.

If you’re age 70½ or older and no longer working in a CalSTRS-covered position and request a 100 percent rollover of your account balance based upon the IRC regulation above, CalSTRS will calculate and pay your minimum distribution directly to you and rollover any remaining funds. The rollover will be considered a complete rollover, even though 100 percent of your account balance was not rolled over.

CalSTRS is not required to begin distribution of your account if:

- You’re currently employed in a CalSTRS-covered position.
- Your current employment is covered by, or you are retired from, another public retirement system.

See “Retiring From More Than One Public Retirement System,” page 43.

CalSTRS sends courtesy notification letters twice to both active and inactive members regarding the required minimum distribution: The first letter is sent the month after you reach age 69; the second is sent the month after you reach age 70. Be sure CalSTRS always has your current mailing address.

If you’re rolling over your payments from your Defined Benefit Supplement period-certain annuity of three to nine years and turn 70½ before the annuity payments end, your annuity rollover payments will end with the December payment, the year before you turn 70½. You’re not eligible to roll over funds once you reach 70½, even if there are remaining years for your period-certain annuity. Any remaining annuity payments will automatically become direct payments. CalSTRS is required to withhold 20 percent for federal tax and 2 percent for California state tax from the direct payments.
The IRS may impose an excise tax of 50 percent of the minimum required distribution if you receive less than the minimum required distribution for a taxable year. Contact the IRS or your tax professional for details.

Section 401(a)(17)
Internal Revenue Code section 401(a)(17) limits the compensation that can be used to provide a CalSTRS benefit. The compensation limit applies if you became a CalSTRS member or Cash Balance participant on or after July 1, 1996. For calendar year 2014, the compensation limit is $260,000. Any compensation in excess of this limit is not creditable compensation, and neither your employer’s nor your contributions to the Defined Benefit Program, the Defined Benefit Supplement Program or the Cash Balance Benefit Program should be paid to CalSTRS on the excess amount.

CalSTRS 2% at 62: The limit on creditable compensation is lower than that required by IRC section 401(a)(17). The limit on creditable compensation that may be counted toward your CalSTRS retirement benefit formula is 120 percent of the 2013 Social Security wages, which is $136,440 for 2013–14. The cap is adjusted annually based on changes to the Consumer Price Index for All Urban Consumers: U.S. City Average.

Section 415
Internal Revenue Code section 415 limits the benefits that can be paid by CalSTRS. Benefits are limited to an absolute dollar amount that is indexed for inflation. For calendar year 2014, the Internal Revenue Code dollar limit is $152,886 at age 60. The limit is lower below age 60 and higher above it. However, the IRC limit serves as a general guideline. There are other considerations that could make you subject to the provisions of IRC 415.

Currently, few CalSTRS members have been, or are likely to be, affected by the limits of section 415. Once we receive your Service Retirement Application, we will notify you if your benefit will be affected by the section 415 benefit limit. Consistent with federal law, CalSTRS has established the Replacement Benefits Program from which benefits in excess of the section 415 limits can be paid. If your benefit is limited by section 415, you will receive an additional separate payment from the Replacement Benefits Program.

CalSTRS 2% at 62: The Replacement Benefits Program is not available.

CalSTRS Right to Recover Costs
When a third party causes you to be injured or die before you retire and you or your family pursues civil litigation, CalSTRS must be informed. We have the right of subrogation to recover an amount equal to the actuarial equivalent of benefits paid under the plan because of your injury or death.

Power of Attorney
You can arrange to have a third party manage your CalSTRS benefits if or when you become incapacitated and can no longer manage your financial affairs, including your CalSTRS account and benefits. That authority could extend to changing your mailing address, instituting or changing direct deposit authorizations, and changing tax withholding preferences.

A durable power of attorney is the most common method used to delegate authority to act on your behalf. This document permits you to act as a principal and appoint an agent. The document also identifies the extent of authority granted to your agent as well as when that authority becomes effective. A durable power of attorney can be drafted by an attorney or purchased as a commercially available fill-in-the-blank form.
In addition, we may require an agent to execute an affidavit affirming the agent’s authority under the durable power of attorney. For the agent’s convenience, the CalSTRS form, Declaration of Attorney in Fact, can be completed by the agent each time he or she makes a request.

Your Rights—The Appeals Process
Any person or entity who disagrees with a decision by the director of a CalSTRS program area may request a review of that decision by the program’s executive. If you disagree with the program executive’s determination, you may request an administrative hearing, and an administrative law judge will issue a Proposed Decision. The Teachers’ Retirement Board considers the Proposed Decision and makes the final CalSTRS decision. A brief description of the appeals process follows. It is not intended to take the place of the law, regulations or the written procedures for the appeals process.

Requesting an Executive Review
If you disagree with a decision by the director of a CalSTRS program area, you may request a review by the program’s executive (Executive Review) within 45 days of the date of the letter informing you of the CalSTRS decision. According to state regulations, your request for an Executive Review must include a statement of all facts, any basis in the Education Code or other law that you believe is relevant, and any other pertinent information to dispute the decision.

Requesting a Hearing
Once the determination has been issued, or you are informed that there will be no Executive Review, you may request a hearing before an administrative law judge at the Office of Administrative Hearings within 90 days of the date of the letter informing you of the CalSTRS determination.

The Office of Administrative Hearings will schedule the hearing and notify all parties regarding the time, date and location. The hearing is a full evidentiary hearing, meaning witnesses may be called. CalSTRS may be represented by the state attorney general or in-house counsel. You may be represented by an attorney or you may represent yourself. Following the hearing, the administrative law judge will submit a Proposed Decision to CalSTRS. CalSTRS will provide all parties with a copy of the Proposed Decision within 30 days.

Proposed Decision and Further Action
The Proposed Decision of the administrative law judge is not the final decision. The Teachers’ Retirement Board must decide whether or not to adopt the Proposed Decision within 100 days of receiving it. If the board takes no action, the proposed decision automatically becomes the decision.

When you receive your copy of the Proposed Decision, you’ll be given the date that the Appeals Committee will act on your case, staff recommendations regarding your case, and procedures for submitting further written argument.

If the Appeals Committee adopts the Proposed Decision, then that is CalSTRS’ final decision. If the Appeals Committee does not adopt the Proposed Decision, it must either send it back to the administrative law judge or decide the matter itself at a future meeting of the committee.
If you’re dissatisfied with the boards’ Appeals Committee’s decision, you may ask the committee to reconsider its decision or you may appeal to Superior Court. You’ll be notified of this right when you receive your copy of the Appeals Committee’s decision shortly after the hearing takes place.

Community Property Considerations

If you have been, or are currently going, through a divorce, legal separation or termination of a registered domestic partnership, your current or former spouse or partner may have a community property interest in your CalSTRS benefits. You may need to refer to your settlement agreement or contact an attorney for legal advice.

Your court order may address the CalSTRS benefits and might specify that your former spouse or partner is entitled to a share of each of your accounts and benefits, including death benefits. If you think your former spouse may be entitled to a community property share of your benefits, you can submit your judgment of dissolution and marital settlement agreement to the CalSTRS Community Property office for review. However, CalSTRS cannot provide you with legal advice.

It is important to know that a dissolution of marriage, legal separation or termination of a registered domestic partnership can invalidate the one-time death benefit designation of a former spouse or partner. However, the designation of any additional beneficiaries named on your Recipient Designation form (One-Time Death Benefit Recipient form) may remain valid. Be sure to update your designation to assure your current election wishes are on file with CalSTRS.

If you choose to have your former spouse as your one-time death benefit recipient, you must submit a new Recipient Designation form after your marital termination date and indicate the proper relationship status.

See the CalSTRS Community Property Guide at CalSTRS.com.

Overpayments

Overpayments occur from time to time. If you (or a benefit recipient on your account) receive an overpayment, you will receive a letter from CalSTRS with the amount of the overpayment and how we will recover the money. Early in retirement, the most common reasons for an overpayment are benefits that were based on estimated service credit or salary, or an incorrect last day of employment. Amounts due CalSTRS will also occur if you earn more than the annual earnings limit while receiving a benefit.

CalSTRS typically will deduct overpayments from your monthly benefit at a rate of 5 percent of your benefit until the entire amount is paid in full. However, if the overpayment was made because you provided inaccurate information or failed to provide information affecting your benefit status, we will deduct the overpayment at a rate of 15 percent of your benefit until the entire amount is paid in full.

If you return to CalSTRS-covered employment in the first 180 calendar days of your most recent retirement (and you do not reinstate), you will be subject to the zero-dollar earnings limit/separation-from-service requirement. CalSTRS will deduct all of your excess earnings from your monthly benefit up to your benefit amount payable during that period. If you earn more than the annual postretirement earnings limit during the fiscal year, we will deduct all of
the excess earnings from your monthly retirement benefit up to your total annual retirement benefit amount, minus any previous reduction to your benefit due to the zero-dollar earnings limit. You may also contact CalSTRS to request alternative payment arrangements.

If an overpayment is due to intentional misrepresentation of facts, or fraud by you, these collection methods do not apply, and CalSTRS will recover the amounts due by any means authorized under the law.

**Benefit Forfeiture for Felony Convictions**
Under the California Public Employees’ Pension Reform Act of 2013, if you are convicted of a felony committed in connection with your job, you will forfeit all of your retirement benefit earned or accrued after the commission of the felony but not benefits accrued prior to the commission of the felony.

CalSTRS will return any contributions you made after that date, without interest. After being convicted, you and the prosecuting agency must notify your employer within 60 days of your conviction, and your employer must notify CalSTRS within 90 days of your conviction.

If your conviction is overturned, you can either receive the forfeited benefits or redeposit the returned contributions, with interest.