

Tax Information and Legal Matters

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

Tax Information

Income Tax Withholding

Under federal law, CalSTRS will withhold income tax from the taxable portion of your benefit unless you choose not to have taxes withheld. This requirement also applies to California state income tax for California residents. Nonresidents are not subject to California state income tax, unless they elect to have tax withheld. To elect tax withholding, you must complete an *Income Tax Withholding Preference Certificate* (also included in the *Service Retirement, Refund and Disability Benefits* applications).

View and update your tax withholding preferences on *myCalSTRS*. Elections made the first of the month are effective immediately. You may also change 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 don't withhold enough taxes, 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.

CalSTRS does not provide tax advice. Consult a tax professional for assistance.

- 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

Generally, 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. However, if you're a nonresident of California, no state income tax will be withheld unless you elect to have state tax withholding.

Eligible Rollover Distributions

CalSTRS withholds income tax from eligible rollover distributions made to you, including a one-time lump-sum distribution, a one-time death benefit, or a benefit accrued and unpaid on the date of death of a CalSTRS benefit recipient (nonperiodic payments). Federal tax withholding from eligible rollover distributions made directly to you is mandatory and set at 20 percent. CalSTRS will withhold state income tax at 2 percent on these distributions unless you elect not to have state income tax withheld or you're a nonresident of California.

- See the *Tax Considerations for Rollovers* booklet, available at CalSTRS.com.

Your tax withholding election will take effect within 60 days after CalSTRS receives your updated form. Tax withholding preferences made using your *myCalSTRS* account will be effective sooner.

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.

If you move from California to another state and want to discontinue your California tax withholding, you can make the change online using your *myCalSTRS* account or by completing the *Income Tax Withholding Preference Certificate* form, available on [CalSTRS.com/forms](https://www.calstrs.com/forms) (under *Most Requested Forms*).

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](https://www.calstrs.com).

Internal Revenue Codes Affecting Benefits

CalSTRS and its members are subject to many Internal Revenue Code provisions and other sources of federal law. Here are three IRC provisions that may affect your benefits.

Section 401(a)(9)

Internal Revenue Code section 401(a)(9) and the California Education Code require CalSTRS to begin the required 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 to take the required 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 the IRC section above, CalSTRS will calculate and pay your required 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 another public retirement system.
- See "Retiring From More Than One Public Retirement System," page 46.

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.

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 Defined Benefit member or Cash Balance Benefit participant on or after July 1, 1996. For calendar year 2018, the compensation limit is \$275,000. 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.

Employers may offer their employees a defined contribution plan, such as CalSTRS Pension2, for contributions on compensation in excess of the Section 401(a)(17) limit.

- **CalSTRS 2% at 62:** The limit on creditable compensation that may be counted toward your CalSTRS retirement benefit is lower than that required by IRC section 401(a)(17). The limit is adjusted annually by changes to the Consumer Price Index for All Urban Consumers: U.S. City Average. For 2017–18, the compensation cap is \$143,082.

Section 415

Internal Revenue Code section 415(b) 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 2018, the Internal Revenue Code dollar limit is \$159,726 at age 60. The limit is lower below age 60 and higher above it. However, this limit serves as a general guideline. There are other considerations that could make you subject to the provisions of Section 415.

Currently, few CalSTRS members have been, or are likely to be, affected by the Section 415 limits. 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 to pay benefits in excess of the Section 415 limits. 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.

Legal Matters

CalSTRS' Right to Recover Costs of Disability and Survivor Benefits

When a third party causes you injury or death and you receive disability benefits or your family receives survivor benefits as a result of that injury or death, CalSTRS has the right of subrogation. This means that if you or your family pursues civil litigation, CalSTRS must be informed. CalSTRS has the right to recover an amount equal to the actuarial equivalent of benefits paid and payable under the plan because of your injury or death. If you recover costs from the third party without giving CalSTRS the opportunity to participate in the litigation, CalSTRS may recover the actuarial equivalent of benefits paid and payable from you directly.

Power of Attorney

You can arrange to have a third party manage your CalSTRS account and benefits if or when you become incapacitated and can no longer manage your financial affairs. 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. We do not provide this 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.

An agent does not have the right to use your *myCalSTRS* account or to set up access to it under the agent's name. Agents are authorized to act only by submitting paper forms.

Your Rights—The Appeals Process

Any qualified applicant 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 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 program's executive issues a Determination, 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 at your own cost, or you may represent yourself. Following the hearing, the administrative law judge will submit a proposed decision to the board. 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 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 CalSTRS' final decision.

When you receive your copy of the proposed decision, you'll be given the date that the board's Appeals Committee will act on your case, staff recommendations regarding your case and procedures for submitting written statements.

If the Appeals Committee adopts the proposed decision, then that becomes 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 Appeals Committee's final 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 final 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 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 (or *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, and your dissolution or termination occurred after December 31, 2001, 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.

Overpayment of Benefits

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 an incorrect last day of employment. Amounts due CalSTRS will also occur if you earn more than the applicable earnings limits while receiving a benefit.

CalSTRS typically will deduct overpayments from your monthly benefit at a rate of 5 percent of your gross benefit amount 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

gross benefit amount until the entire amount is paid in full. If an overpayment occurs because you exceeded either the 180-day separation-from-service requirement or the disability or service retirement earnings limit, CalSTRS will deduct all of your excess earnings from your monthly benefit up to your benefit amount payable during that period. When an overpayment occurs, you may also contact CalSTRS to request alternative payment arrangements if you can demonstrate that the above collection guidelines would constitute a financial hardship for you.

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

If you are convicted by a state or federal trial court of any felony under state or federal law, you will forfeit all accrued retirement rights and benefits from the earliest date of the commission of the felony to the date of conviction date for conduct arising out of or in the performance of your official duties; in pursuit of the office or appointment; or in connection with obtaining salary, disability retirement, service retirement, or other benefits. In addition, if you have contact with children as part of your official duties and are convicted of a felony that was committed within the scope of your official duties against or involving a child who you had contact with as part of your official duties, you will forfeit all accrued rights and benefits.

You will not accrue further CalSTRS benefits, effective on the date of the conviction. You will not forfeit rights and benefits attributable to service performed before the earliest date of the commission of the felony.

CalSTRS may return any contributions you made after the earliest date of the commission of the felony, without interest. CalSTRS will collect any overpayment of benefits accrued and paid after the earliest date of the commission of the felony.

Within 60 days of your conviction, you are required by law to notify your employer at the time of the commission of the felony of the date of conviction and the date of the first known commission of the felony. In addition, within 90 days of your conviction, you are required by law to notify CalSTRS of the date of conviction.

If your conviction is reversed and that decision is final, you can recover the forfeited rights and benefits adjusted for the contributions returned to you, or you may choose to redeposit the returned contributions and interest that would have accrued during the forfeiture period, as determined by the CalSTRS actuary, and then recover the full amount of the forfeited rights and benefits. *Keeping Your CalSTRS Account Secure*

Keeping Your CalSTRS Account Secure

Protecting your CalSTRS personal and financial information is among our highest priorities. We have strict policies and procedures in place to ensure your personal information remains private and secure. Here are a few of our security measures along with steps you can take to help protect the security of your CalSTRS information:

- Review your account regularly and make sure that your contact information, including your phone number, is accurate.
- We do not send representatives to meet you at any location, whether at your home, workplace or the mall. You can schedule an appointment with a CalSTRS benefits specialist by calling 800-228-5453 or online at [CalSTRS.com/benefits-planning](https://www.calstrs.com/benefits-planning) or from your *myCalSTRS* account. We also have member service centers and benefits planning offices across the state (see page 15).

- We will not request confidential or personal information via email. If you receive a suspicious email that looks like it came from CalSTRS and it's requesting you to enter confidential data, do not click on any links within the message. Call us immediately at 800-228-5453.
- Protect your *myCalSTRS* login information—do not share or make information available and choose a strong password. As part of good security practices, you should change your password regularly and never walk away from your computer if you're in the middle of a session.
- When you log in to *myCalSTRS*, always check your Personal Security Icon and Personal Security Message to ensure that they are the ones you have chosen. These are known only to you and CalSTRS and would not appear on an imposter site. If these items do not appear or are not the ones you chose, contact CalSTRS for assistance. Never enter your password without verifying that these security items are valid.
- Do not divulge security question answers online. For example, we've recently seen fun questions on Facebook inquiring about the first teacher you've ever had or your favorite teacher. While it's fun to play the game and post the information online, these are security question answers that can now be used to access your accounts.

Password Security Tips

Here are some tips to keep your password secure:

- Change your password immediately if you know or suspect it has been compromised or is known by others.
- Use a long pass phrase to make your password easier to remember.
- Do not use the same password for multiple logins.
- Avoid passwords that include:
 - » Family, friends or pets names.
 - » Your User ID or other variations of your name.
 - » Your birthday, telephone number or driver's license number.

Remember, the whole idea of a password and security questions is to keep someone else from accessing your account, so naturally you don't want to create a password or security questions that are easy for others to guess. Here are some suggestions and methods to think about, but do not use these examples—these are just ideas.

- A Song: Tm02tBg! (take me out to the ball game!)
- Sayings: 1wAyORaN0th3r (one way or another)
- Forgot your password? Go to myCalSTRS.com and select the *Forgot Your Username or Password?* link. Check out CalSTRS.com/myCalSTRS-help-videos for easy instructions on resetting your *myCalSTRS* password.

Confirmation for Address and Direct Deposit Updates

We will send you a letter and an email confirming any updates or changes you make to your mailing address as well as your bank account or direct deposit information. You can make mailing address changes only through your *myCalSTRS* account or by submitting the *Address Change Request* form—or by calling us at 800-228-5453 if you have a valid email address. You can update bank account or direct deposit information only by using *myCalSTRS* or the *Direct Deposit* form. Forms are available at CalSTRS.com or by calling us at 800-228-5453 to have the form mailed to you.