Do You Know Your Federal Tax Withholding?

The new year is a good time to remind you of your right to change, start or stop federal tax withholding from your monthly retirement benefit, which you can do at any time by filing a new Withholding Certificate for Pension or Annuity Payments. This form may be obtained from the “Forms” section of the NPERS website at npers.ne.gov or by calling our office at the numbers below. You may make changes online only if you have created a secure account on our website.

You are not required to have federal income tax withheld from your monthly benefit, however, the Internal Revenue Service (IRS) may assess interest or penalty charges if your estimated tax payments or withholding amounts fall short of your tax liability.

If you are a Nebraska resident and you choose to have federal income tax withheld from your monthly benefit, NPERS is required to withhold Nebraska taxes using the allowances and marital status you claimed for federal withholding. You may also elect additional amounts of withholding over and above the marital status and allowances you elected on your federal and/or state withholding; these amounts are not required to match. If you choose not to have federal tax withheld from your retirement benefit payment, you are not required to have Nebraska state income tax withheld. If you are not a Nebraska resident, NPERS is not required to withhold Nebraska taxes from your benefit payment.

No action is necessary if your present tax authorization for your monthly retirement benefit still fits your needs. If you have questions, please contact NPERS at 800-245-5712 or 402-471-2053. For tax advice, you should contact a tax professional about your individual situation.
Watch Your Mail for Form 1099-R

NPERS will mail your IRS Form 1099-R tax statement by the end of January 2010. Make sure NPERS has your current address so you receive your 1099-R in a timely fashion.

The information on Form 1099-R should be used to file your 2009 federal and state tax returns. Your 1099-R will show the gross amount of benefits you received from NPERS in 2009. This form will also indicate the federal income tax which was withheld from your benefit payments and, for most people, the taxable portion of your benefit.

You should direct questions about individual tax liability to your accountant or tax professional, the Internal Revenue Service or your state Department of Revenue.

No COLA Increase

Retirees of the School, Judges and State Patrol Plans who have received benefits at least one full fiscal year (July 1 – June 30) are eligible for a cost-of-living (COLA) adjustment when inflation rises. There was no COLA increase for this fiscal year (July 1 – June 30) for retirees of the School, Judges and Patrol Plans.

A COLA acts to keep your benefit in step with the changing economy. As inflation raises consumer prices, your COLA reflects the economic increases by raising your monthly benefit accordingly. The “adjustment” is based on the consumer price index (CPI), which is a tool developed by the U.S. Department of Labor to track the average costs of various items consumers buy over time. Tracked on a monthly basis, the costs are then averaged to come up with a yearly amount, which is essentially a measure of economic inflation. Each year, the CPI average for the year just completed is compared to that of the prior year to determine a percentage of change between the two years.

According to Nebraska law, your COLA percentage is either capped at 2.5%, or the increase in the CPI, whichever is less. For the year ending June 30, 2009, the CPI experienced a decrease. As a result, the School, Judges and State Patrol retirees did not see an increase in their benefits beginning in July (does not apply to State Patrol members participating in DROP).

By Nebraska law, a minimum or “floor” is set to a retiree’s purchasing power. For the School and Judges Plans, the floor is 75% of the purchasing power of the initial benefit. For the State Patrol Plan, the floor is 60% of the initial benefit. If your retirement benefit would erode to an amount below the minimum floor, your benefit adjustment would reflect the amount necessary to return to the minimum purchasing power. If you have questions about the COLA, please contact NPERS.