

MEMORANDUM

TO: RSA Retired Members Receiving DROP Distribution in 2009

FROM: RSA Administration

RE: 2009 Tax Reporting

DATE: January 12, 2010

The following information will assist you in the tax reporting of your distribution from the Deferred Retirement Option Plan (DROP) received in the 2009 calendar year. If you received a lump-sum distribution, you will receive a 1099-R Form indicating such payment. If part of your DROP distribution was a direct rollover and part was distributed to you, you will receive more than one 1099-R Form. In addition, you will receive a separate 1099-R Form reporting the monthly benefits paid to you during 2009, that will also indicate any health insurance premiums or other deductions withheld from your monthly retirement benefit.

We request that you retain this memorandum until you receive your IRS 1099-R Forms from the Retirement Systems providing you with the information you will need to file your 2009 tax return. Your Alabama state retirement benefits are generally **taxable for Federal Income Tax purposes** and **exempt from Alabama Income Tax**. If you are a resident of a state other than Alabama, you should check with that state's revenue department to determine your tax status.

You should receive your **IRS 1099-R Forms** from the RSA during the last week of January. If you have not received your forms by February 9, 2010, please call our office toll-free at 1-877-517-0020 and request a duplicate. **We will not accept requests for duplicate forms prior to that date.**

The following refers to specific boxes on the 1099-R Form:

- Box 1** **Gross Distribution:** For DROP distributions, this will be the amount paid either directly to you or the amount directly rolled over to another plan by the RSA. This does not include any monthly benefits paid to you; you will receive a separate 1099R indicating that amount.
- Box 2a** **Taxable Amount:** This is the taxable portion of the gross distribution which should be reported on your Federal Income Tax return. For members who had their DROP distribution directly rolled over to another plan, this will be zero.
- Box 2b** **Blank** (Unless you received a death benefit payment)
- Box 3** **Zero**
- Box 4** **Federal Income Tax Withheld:** This is the amount of Federal Income Tax withheld from the lump-sum received during the 2009 calendar year. For members who had their DROP distribution directly rolled over to another plan, this will be zero.

Box 5 **Employee Contributions:** This represents the return of your pretaxed contributions to RSA and is the difference between Box 1 and Box 2a. Not everyone will have a figure in this box; if Box 1 and Box 2a are the same Box 5 will be blank. **PLEASE NOTE: THESE ARE NOT DESIGNATED ROTH CONTRIBUTIONS OR INSURANCE PREMIUMS.**

Box 6 **Zero**

Box 7 **Distribution Code:** This code identifies the type of payment you received from RSA. For retirees your distribution code should be one of the following:

<u>Distribution Code</u>	<u>Type Payment</u>
2	Retirement benefits to a person less than age 59-1/2 at the time of distribution.
4	Death benefits paid to you as beneficiary of a deceased member of RSA.
7	Normal distribution to a person over age 59-1/2.
G	Direct rollover to a qualified plan, a tax-sheltered annuity, a governmental 457(b) plan, or an IRA.
A	May be eligible for 10-year tax option if you received a lump-sum distribution and were born before January 2, 1936. Used with code 4 or 7 if applicable.

Box 8 **Zero**

Box 9a **Zero**

Box 9b **Total Employee Contributions:** This is an informational item.

Box 10 **Zero**

Box 11 **State/Payers State Number:** Will have "AL" in this box.

Box 12 – 15 **Zero or Blank**

Health Insurance : **Zero or Blank** – Any health insurance premiums will be reported on the separate 1099R indicating the monthly retirement benefit received in 2009.

Other Deductions: **Zero or Blank** - Any association dues or miscellaneous deductions will be reported on the separate 1099R indicating the monthly retirement benefit received in 2009.

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Roth Contrib. This will be blank.

You may wish to provide this memorandum along with the IRS Form 1099-R to the person who prepares your 2009 tax return. If you prepare your own taxes, this memorandum should help answer any questions relating to that process. If you have questions relating to your tax liability or tax filing, you should contact a qualified tax professional.