

# Delaware Public Employees' Retirement System NEWSLETTER

Retiree Edition

July 2007

## TAX TREATMENT OF YOUR PENSION BENEFITS

The Federal government passed legislation last year referred to as the Pension Protection Act of 2006 (PPA). While this bill had many sections not applicable to governmental pension plans, it did implement changes to the distribution rules that pertain to the pension plans administered by the Delaware Public Employees' Retirement System (DPERS). This is a good opportunity to not only highlight the changes made as a result of the PPA, but also remind you of the tax treatment of benefits received from your pension plan.

The monthly pension benefit that you receive from DPERS is taxable as Federal and State income. You are taxed in the state that you reside and are, therefore, not subject to State of Delaware income taxes if you are not a resident of Delaware. As a retiree, you have completed a Tax Withholding Election Form

instructing the Pension Office on how much you wish to have deducted from your monthly benefit for Federal and State income tax withholdings. You can change the withholdings at anytime by completing a new form and sending it to the Pension Office.

Prior to 1993, employees contributed to the pension plan with after-tax payroll deducted contributions. To determine the proportionate non-taxable amount of the total pension benefit received each year, an exclusion ratio was determined by using tables provided by the Internal Revenue Service. This ratio is calculated by dividing your employee contributions which were subject to tax (as gross wages through payroll) by the number of months of pension benefit you are expected to receive during your lifetime based on your age at retirement. This non-taxable amount was

calculated by the Pension Office when you began to receive your pension benefit.

In the State Employees' and State Police Pension Plans, there is a \$7,000 death benefit paid to your beneficiary(ies) at the time of your death. The provisions of the PPA changed the distribution regulations for the payment of this benefit and address withholdings that will be taken for Federal taxes, but not State taxes. Unless the beneficiary elects to rollover the distribution, the PPA requires a 20% withholding for spouses and a 10% withholding for non-spousal beneficiaries. These changes have been implemented effective 1/1/2007 and all parties that have received a distribution have been notified of the change and their options regarding the distribution.

## WHAT IS CHAOS?

While the dictionary defines chaos as a condition or place of total disorder or confusion, it is also the term that might have best described the recent Health Care Open Enrollment period for pensioners. Each year, the open enrollment period creates some confusion for our retirees and also generates quite a bit of activity in the Pension Office with phone calls and visits to the Office. However, this year, during the month of May, there were over 17,500 phone calls into the Pension Office as well as over 1,000 visitors to the office. This is approximately 4 times the normal volume!

During 2007, the following changes increased the inquiries to the office:

- Elimination of a health care carrier and adding a new carrier
- Elimination of a dental care carrier and adding a new carrier
- Condensing all Medicare supplement plans into one plan

To say the least, the Pension Office was not prepared for the overwhelming activity during the last two weeks of May. We have taken extra efforts to accommodate all pensioners' requests for changes during the open

enrollment period and continue to process those changes that will be effective July 1, 2007.

While we have also received a number of suggestions to streamline this process, it is always a balancing act to develop procedures that best fit our retiree population. For example, here were the two suggestions that we heard most:

- Use of online technology for electronic enrollment
- Provide forms in the open enrollment booklet as not all retirees have computer access nor are they computer knowledgeable.

As you can see, both are very constructive suggestions but, the complete opposite of each other. It is that meeting between the two suggestions where the Pension Office must develop procedures to make the open enrollment period an annual "non-event" and not a period of chaos. We apologize for any frustration that you may have experienced during the 2007 open enrollment period and we will strive to make this process better for everyone in the future.

*The Pension Office will be closed on the following dates:*

<b>Labor Day</b>	Monday, September 3, 2007
<b>Columbus Day</b>	Monday, October 8, 2007
<b>Veteran's Day</b>	Monday, November 12, 2007
<b>Thanksgiving Day</b>	Thursday, November 23, 2007
<b>Day after Thanksgiving</b>	Friday, November 24, 2007
<b>Christmas Day</b>	Tuesday, December 25, 2007
<b>New Year's Holiday</b>	Tuesday, January 1, 2008



### OFFICE OF PENSIONS

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# Where Are Our Retirees Located?

We would like to share with you where our retirees migrate after they leave state employment. While some choose to stay very close to home in Delaware and the tri-state areas, others have moved to the far corners of the world. The information below was current as of May, 2007.



**Pension benefits are payable on the last working day of each month, with the exception of December. The schedule for the balance of 2007 is as follows:**

- TUESDAY, JULY 31, 2007
- FRIDAY, AUGUST 31, 2007
- FRIDAY, SEPTEMBER 28, 2007
- WEDNESDAY, OCTOBER 31, 2007
- FRIDAY, NOVEMBER 30, 2007
- MONDAY, DECEMBER 24, 2007

Pension Checks and Direct Deposit Advices are mailed the day before the last working day of the month.

## Frequently Asked Question

- Q:** Who do I contact about my prescription plan with the State?
- A:** If the Pensioner or spouse of the Pensioner is having trouble with getting their prescription at the drug store, they can call the Benefits Section in the Pension Office. Any questions about drug information should be directed to Medco at:  
1-800-939-2142.