

YOUR RETIREMENT AND TAXES

Members frequently ask questions about retirement income—specifically how pensions, retirement accounts (annuity and 401(k)), rollovers, Social Security, and taxes work together, when money can be accessed without penalties, and how where you live can affect your retirement income. This memo is intended to provide a general overview so members can make informed decisions and avoid unnecessary penalties.

Pension

Your pension provides a monthly retirement benefit based on your years of covered employment and credited service.

Collecting a pension does not reduce your Social Security benefit, provided the pension is based on work where Social Security taxes were paid. Your Social Security benefit and pension are calculated separately. Pension income is generally subject to federal income tax and may also be subject to state income tax depending on where you live.

Retirement Account (Annuity and 401(k))

Your annuity and 401(k) are held in the same retirement account and treated the same for distribution and tax purposes. Together, they represent your retirement savings, funded through employer contributions and your own contributions.

You may generally access retirement account funds without IRS early-withdrawal penalties when you reach age 59½, retire or separate from covered employment, or experience a qualifying event such as permanent disability or death. Withdrawals taken before age 59½, without a qualifying exception, are typically subject to federal income tax and an additional 10% IRS early-withdrawal penalty.

Because these funds are tax-deferred, early withdrawals can significantly reduce long-term retirement income.

Rolling Over Retirement Funds

A rollover allows you to move retirement account funds into another qualified retirement plan without paying taxes or penalties, provided the rollover is handled correctly. This may include rolling funds into an IRA, into a new employer's retirement plan, or consolidating multiple retirement accounts into one.

A direct rollover, where funds move directly from one plan to another, is the safest option and avoids unnecessary tax consequences. Members are strongly encouraged to contact the Funds Office before initiating any rollover.

Social Security

Your Social Security benefit is based on your lifetime earnings that were subject to Social Security payroll taxes. Withdrawals from your pension or retirement account do not reduce your Social Security benefit amount and do not change your earnings record or credited years of work.

However, once you begin collecting Social Security, income from other sources may affect how much of your Social Security benefit is subject to federal income tax, depending on your total income.

Taxes and Retirement Income

Most retirement income sources—including pensions, retirement account withdrawals, and Social Security benefits—may be subject to federal income tax and, in some cases, state and local taxes. Because retirees often rely on fixed income, managing taxes becomes an important part of maintaining financial stability in retirement.

Where You Live and Retirement Taxes

Because retirement income is often taxable, many retirees consider living in states with more favorable tax treatment in order to preserve a larger portion of their income. Several states do not impose a state income tax at all, meaning pensions, retirement account withdrawals, and Social Security benefits are generally not taxed at the state level. These states currently include Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, Wyoming, and New Hampshire.

Other states impose a state income tax but exempt most or all retirement income, making them relatively tax-friendly for retirees. States commonly cited for this treatment include Illinois, Iowa, Mississippi, and Pennsylvania. Tax rules vary by state and may change over time, and states without income tax may rely more heavily on property or sales taxes.

Important Reminders

Retirement plans are designed to provide long-term financial security. Early withdrawals can significantly reduce future retirement income, and tax consequences vary based on individual circumstances.

Members are strongly encouraged to contact the Funds Office before withdrawing or moving retirement funds and to consult with a qualified tax or financial professional when planning for retirement or relocation.

This memo is provided for general informational purposes only and does not replace official plan documents or professional financial or tax advice.

