



DSRA Guideline for Computing the Taxable Portion of Your PBGC Pension

1/25/2011 From original prepared by John MacBain, DSRA member, for the benefit of DSRA members drawing PBGC pensions.
1/19/2013 Updated for generic year to year use.
3/9/2014 Updated to reference Prudential Annuities.

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This information is provided for guidance and information to DSRA members who are drawing their pensions from the PBGC. This information is provided in the absence of any direction on this subject from the PBGC. DSRA cannot provide any additional information or assistance on this subject or on any related personal tax related matters. All members are advised to contact their tax preparers for specific advice and calculations.

This information should be read in conjunction with [IRS Publication 575](#).

DSRA is neither responsible nor liable for calculations that result from using this information.

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When you receive your 1099-R the PBGC does not provide a breakdown into taxable pension payments and non-taxable "return of contribution" payments. As such, any contributions that you made as Part B contributions to your pension are not broken out as non-taxable.

Each retiree is responsible for calculating and reporting taxable/non-taxable amounts. Failure to calculate the correct non-taxable and taxable portions of the PBGC pension could result in payment of higher taxes than are actually due.

The following information is provided to assist you with your taxable/non-taxable calculations. You will need to maintain a personal record of your calculations from year to year through the period of years that your Part B contributions are paid out.

[IRS Publication 575](#) | [IRS Info Page for Pub 575](#) | [Notice from PBGC with 1099-R](#)

This update of these notes is for those are taking a PBGC pension, and who have never taken a Delphi pension, i.e. those who have retired/separated from Delphi since the PBGC assumed the pension plans in 2009. This updated assumes that you have only taken reimbursement of your Part B contributions from the PBGC, and did not take any reimbursement of Part B contributions through payments from the Delphi pension.

Calculating your Taxable/Non-Taxable Pension Payments

How Much Did I Contribute to the Pension?

One of the key numbers you will need for the tax computation is how much you contributed to the pension, without interest, over the years. There are three ways to obtain this number:

1. If you happened to obtain it from the Fidelity 401(k) pension and 401(k) web page in 2009 before that Delphi/Fidelity web page went away, then you are fine. That web page listed the contributions by year.
2. If you retired directly from the PBGC, then you received "Benefit Estimation Worksheet". In the subsection "Participant's Pension Information for Benefit Calculation" you will find a line entitled "Employee Contributions without Interest". This is the number you will need.

- a. If you have not yet retired, you may have already received a “Benefit Estimation Worksheet” from the PBGC, or you will receive one in the future. You can request one at any time. This worksheet, as per the bullet above, provides you the total value of your contributions.
- b. The PBGC has this information in their database (see item #2). PBGC may be contacted at 1-800-400-7242.

Computation of Your Return of Contributions from Previous Years

This section applies only if you had pension payments in a prior tax year. This would mean you retired directly to a PBGC pension before the current tax year that you are now reporting.

1. If you retired directly to a PBGC pension in the current tax year that you are reporting, then your value is \$0 for any return of contributions prior to the tax year that you are now reporting.
2. If you received any pension payments from the PBGC in prior tax year, then you have probably paid too much federal and state tax in for that year. You need to work through this document as if all the dates were for any prior tax year, and re-file your taxes for those years to obtain a refund.

Computation of Your Taxable Pension for the Current Tax Year That You Are Reporting

This computation is done as per [IRS Publication 575](#). Print page 14 "Worksheet A" example, with two tables, Table 1 and Table 2. Print page 40, blank worksheet, "Worksheet A. Simplified Method".

As inputs you will need:

- Line 1: Total gross pension or annuity payments received in the tax year that you are reporting, per your PBGC 1099-R.
- Line 2: Your total contributions without interest to the pension (note – this is net of withdrawals of contributions and the PBGC number may not reflect withdrawals)
- Line 6: Total contributions recovered for previous tax years.

This worksheet will give you the portion of your pension payments that is not taxable and the portion that is taxable.

The reason you need the total of contributions returned in prior tax years is that the IRS worksheet keeps track of the total non-taxable pension payments that you have ever received. Once you have received all of your contributions back over the years, then 100% of future pension payments will be taxable.

Observation to Note

The amount of return of contributions each month in your pension is simply a function of Tables 1 and 2 and your total lifetime contributions. It will be the same each and every month, year after year, until all of your contributions have been returned. This remains constant each month whether the check came from Delphi or from the PBGC.

Prudential Annuity

This applies only to those who are now receiving pension checks from both PBGC and Prudential, this change occurred for a minority of Delphi retirees in April 2013. Basically, without specific information from PBGC or Prudential, you may elect to declare the split of taxable and non-taxable payments from PBGC and Prudential either way, as follows – the overall total that you are declaring is the same either way.

Note that the transfer of funds to a Prudential Annuity, and the resulting payments from the Prudential Annuity, are because prior to January 1, 1985, an annuity was purchased for the participant with Part B

contributions. This is pertinent if you choose Method 1 below for determining your non-taxable amount from Prudential; to follow Method 1 you would need to determine your Part B contributions prior to 1-1-85.

Examples of Taxable / Non-taxable Pension

<u>Delphi / Fidelity</u>		
Taxable	\$ 41,500.00	Amount from 1099's
Non-Taxable	\$ 550.00	
Total	\$ 42,050.00	

<u>PBGC</u>	
Taxable	\$ 20,750.00
Non-Taxable	\$ 550.00
Total	\$ 21,300.00

With Prudential payments, it is your choice to report:

Either Method 1

	<u>PBGC</u>	<u>Prudential</u>	<u>Total</u>
Taxable	\$ 20,175.00	\$ 575.00	\$ 20,750.00
Non-Taxable	\$ 525.00	\$ 25.00	\$ 550.00
Total	\$ 20,700.00	\$ 600.00	\$ 21,300.00

Or Method 2

	<u>PBGC</u>	<u>Prudential</u>	<u>Total</u>
Taxable	\$ 20,150.00	\$ 600.00	\$ 20,750.00
Non-Taxable	\$ 550.00	\$ -	\$ 550.00
Total	\$ 20,700.00	\$ 600.00	\$ 21,300.00

The non-taxable is the amount of your contributions to Part B annuitized over a period of time, depending on your age at the time of retirement. Once you receive all of your contributions back, then the non-taxable amount is zero, as before.

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