

IMPORTANT NOTICE TO ALL CFRS RETIREES/BENEFICIARIES WHO RECEIVE SERVICE-CONNECTED DISABILITY RETIREMENT (“SCDR”) BENEFITS AND APPLICANTS FOR SCDR FROM CFRS

The City of Fresno Retirement System (“CFRS”) has completed the first phase of its internal audit of its tax reporting of service-connected disability retirement benefits and has determined that 1099-Rs of retirees (or their beneficiary) who participated in the Deferred Retirement Option Program (DROP) or received a Post Retirement Supplement Benefit (PRSB) require a different reporting of the exempt portion of retiree and survivor benefits than previously reported for the 2019 Tax Year. CFRS will now audit its tax reporting on this same topic for the 2018 Tax Year.

CFRS’ long-time practice has been to apply a ratio of duty disability percent divided by service retirement benefit percent to arrive at the member’s tax exclusion. As an example, a Tier I service-connected disability is 55% so for a Tier I member with a 60% service retirement benefit, the tax exclusion ratio would have been .55/.60 or 91.66% excluded. This exclusion percent was then applied against a member’s base benefit, COLA and DROP. PRSB was excluded at 100%.

We have since been advised that the appropriate base benefit exclusion for a duty disability is based upon the service-connected disability benefits allowed under the Fresno Municipal Code (for instance, FPRS Tier I would be .55 multiplied by the member’s Final Average Salary). COLA and PRSB are excluded by the ratio method outlined above. Monthly DROP annuity payments generally are not excludable. However, there might be a rare situation in which the exclusion percentage based on the member’s FAS was not fully used up after being applied to the annuity benefit. In this circumstance, the remaining exclusion amount would be applied against the DROP annuity benefit. DROP lump sum payments are never excludable. CFRS is updating its pension administration system to incorporate the above methodology into its 2020 1099 reporting.

The Boards will be discussing this matter at the January 26, 2021 Joint Meeting of the Retirement Boards scheduled at 1:00 PM. You are welcome to join the Zoom meeting.

Join Zoom Meeting

<https://zoom.us/j/5534799892?pwd=bEh2S0xCSFFhaVczcFNvOWRUUEw0QT09>

Meeting ID: 553 479 9892

Passcode: 553020

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The above link and the Agenda for this meeting can be accessed by visiting the Systems website at www.cfrs-ca.org. Or you may certainly contact our office at (559) 621-7080, 8:00 am – 5:00 pm, Monday through Friday for assistance.

We apologize that this information may create some difficulty or uncertainty. Certainly, we hope you understand that we are required by law to properly report all benefits in accordance with the requirements of applicable tax law.

Thank you.