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Santa Barbara County Employees' Retirement System

Gregory E Levin, CPA  
Chief Executive Officer

March 13, 2017

Members and Beneficiaries:

I am writing this letter to provide you with information regarding the reporting of income on your calendar year 2016 Form 1099-R information return. The Board of Retirement will be considering this matter at a special meeting on March 17, 2017 at 11:00 am.

The meeting will be held at the **Goleta Library at 500 N. Fairview Avenue, Goleta CA 93117**. For those of you who live in the North County and don't wish to commute to Goleta, you can participate in the meeting by attending via remote video-conferencing at the **Santa Maria Radisson at 3455 Skyway Drive, Santa Maria CA 93455**. SBCERS staff will be on hand at both locations to coordinate public comment opportunities and answer questions that members may have about this matter. You will be able to find the Board of Retirement's agenda materials for this meeting at [www.sbcers.org](http://www.sbcers.org).

Please be advised that the income reported to you for 2016 is higher than in past years due to a requirement that we report income to you in 2016 for a direct deposit made to your account on December 30, 2016. In prior years, dating back to the 1980s, direct deposits initiated by SBCERS at the end of December had been reported as income for the subsequent year. Although you had received a total of 12 monthly payments in each full year, the payments reported to you and to the IRS for prior years were for 11 deposits initiated by SBCERS in each calendar year (February 1 through December 1) and one payment for which a direct deposit transaction had been initiated in the previous year. This practice dated back to the year of your retirement, or the year you converted from receiving paper warrants to direct deposit. Accordingly, in the year of retirement (or conversion), you were disbursed a payment in December that was not reported on your 1099-R until the subsequent tax year.

SBCERS discovered the practice of deferring payments in January of this year, after funds had already been deposited to member and beneficiary accounts on December 30, 2016. The practice was deeply ingrained in the business logic of our computerized pension administration system, and therefore not readily apparent absent the conduct of a thorough investigation of SBCERS internal controls over tax reporting. After consulting with SBCERS' tax counsel, we were advised that it would not be in compliance with tax reporting rules to defer the reporting of this payment to 2017, and that it must be reported in 2016. For that reason, consistent with our obligation to comply with the law, we included the December 30, 2016 direct deposit on your 2016 Form 1099-R. The inclusion of this payment resulted in one additional month of distributions being reported on your 1099-R form for 2016.

This issue only affected our members who receive funds via direct deposit. We chose to include the additional disbursement over other alternatives for correction because we believed it was the most effective means of achieving tax code compliance without the necessity of issuing restated

1099-Rs to all of our retirees for a period of several prior years. Restating 1099-Rs for the years 2013-2016 would have been confusing to all, and for recent retirees would have simply moved an additional payment from 2016 to a prior tax year for which tax returns had already been filed.

We believe that the reporting of the additional payment for 2016 was the best alternative available for retirees, beneficiaries and the System. Along with the extra reported payment, an extra month's withholdings have also been reported. These withholdings will reduce the amount you are required to pay the IRS upon filing your taxes. In addition, we are recommending to the Board of Retirement that it approve a payroll schedule for 2017 with only 11 monthly payments. The recommendation means that the January 2018 payment will be disbursed on January 2, 2018 and reported in the 2018 tax year. If the recommendation is adopted, there will be 12 payments included on your 1099-R information return for every year after 2017.

We apologize for our lack of communication on this matter. We had very little time to correct this issue prior to the January 31, 2017 filing deadline for 1099-R information returns. We have provided education to our staff regarding these issues and they are ready and willing to answer your questions. If you require further information, we encourage you to call us at 1-877-568-2940.

You are welcome and encouraged to attend our meeting on March 17, 2017. Regardless of whether or not you attend, you will be fully informed of any action the Board may take via a follow up letter. In the coming months, you will also be receiving further communications from us at SBCERS. We hope that you will be patient with us in that regard, as we have much further work to do in order to modernize our systems, improve our website, and expand the capacity of our team to provide you with the high level of customer service that you expect.

In closing, I want to impart to you my regret that any of you may feel that your interests have been overlooked or disregarded. I hope this letter clarifies our past actions and demonstrates our commitment to making open and clear communication with our retired members and beneficiaries a priority.

Sincerely,

A handwritten signature in black ink, appearing to read "Gregory Levin". The signature is fluid and cursive, with the first name "Gregory" written in a larger, more prominent script than the last name "Levin".

Gregory Levin, CPA  
Chief Executive Officer