(cont. from previous page)

(*see Rollovers into a Roth IRA*). You can directly roll over a portion or the entire amount of your funds.

Direct rollover to a traditional IRA
If you roll after-tax contributions to a traditional IRA, you need to report the amount of those contributions to the IRS. Some IRAs limit the amount of transfers you can make in a 12-month period without penalties, so you'll want to verify those details with your plan administrator at the financial institution (for more details, see IRS Publication 590, *Individual Retirement Arrangements*).

Rollovers into a Roth IRA
You can also roll lump-sum payments from a tax-deferred plan into a Roth IRA account, but because Roths are funded with after-tax dollars, you'll be required to pay income tax on your contributions at the time of the rollover.

When the funds are eventually drawn, they are tax-free – including any future earnings (as long as you meet the plan requirements), but you should consider the amount of taxes you'll have to pay now and the length of time you'll have the funds in the account (currently 5-year minimum requirement).

60-day rollover option
Even if you choose to receive a lump-sum payment made to you, there's still a 60-day window when you can roll the funds into a qualified plan. However, your mandatory 20% tax withholding will not be refunded, so you'll have to roll the remaining portion, or supply the additional funds to make up the difference.

Limitations on rollovers
Retirement plans, including qualified employer plans, are not required to accept rollovers, so you'll need to check with the plan administrator at the financial institution for details and limitations on your plan. If new employers or financial institutions do not accept direct rollovers, you can choose to roll your funds to an IRA.

While you can roll any of the taxable portion of your funds into a 457(b) Deferred Compensation Plan, you are not allowed to roll the after-tax contributions into this plan. You cannot roll your lump-sum payment into a Coverdell Education Savings Account (ESA), formerly known as an Education IRA.

Required minimum distributions
Federal law mandates you must begin receiving payments from your pension plan when you reach age 70½ to avoid certain penalties.

As an inactive member, if you have not elected to begin receiving a pension/refund prior to age 70½, JRS/GARS will issue the benefit/refund of your contributions to you.

Additional information

This brochure summarizes federal tax rules and regulations about common tax, lump-sum payments and rollover treatments, but you can find specific information – including exemptions and special rules – in IRS Publication 575, *Pension and Annuity Income* and IRS Publication 590, *Individual Retirement Arrangements*.

You can find these publications at ***irs.gov****, your local IRS office or by calling 800-TAX-FORM.*

You should also consult with your tax advisor.

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SRS Judges' & General Assembly Retirement Systems of Illinois

TAXES, LUMP-SUM PAYMENTS & ROLLOVERS

Judges' Retirement System (JRS) & General Assembly Retirement System (GARS) are qualified plans under Internal Revenue Code § 401(a). This brochure presents possible tax consequences of JRS/GARS benefits.

Please contact the Internal Revenue Service (IRS) or your tax advisor regarding your tax liability and the preparation of your tax returns.

What are employee contributions?

For tax purposes, unless otherwise noted, in this brochure the term "employee contributions" refers to:

- contributions made to JRS/GARS prior to Jan. 1, 1982, which were made with after-tax dollars; and
- contributions and interest paid with after-tax dollars for optional service purchases.

Illinois State Income Tax

All JRS/GARS benefits are exempt from state income tax under Illinois law.

Federal income tax

Annual tax statement – Form 1099-R
The Illinois Office of the Comptroller will send you a Form 1099-R tax statement every January, which should be used for filing your state and federal taxes.

The Form 1099-R has your information regarding distributions from JRS/GARS.

Federal income tax withholding for monthly payments
All monthly benefits paid by JRS/GARS are subject to federal income tax withholding, with the exception of monthly occupational disability benefits and occupational death benefits. When you apply for a benefit, you have the option to elect how you'd like your federal taxes to be withheld. If you don't make an election, you will be taxed at the rate for a married person with three (3) exemptions. You may change your withholding elections at any time.

Simplified Method
If you made after-tax contributions to JRS/GARS, your nontaxable amount will be calculated using the Simplified Method (for more details, see IRS Publication 575, *Pension and Annuity Income*).

JRS/GARS determines the amount of each benefit payment that is considered taxable vs. nontaxable to report to the IRS. Once your contributions have been recovered, the entire amount of your benefit payment is considered taxable. Survivor annuities are calculated using the same method, which are based on any remaining member contributions.

The amount of the nontaxable portion of your annuity will be provided to you when the benefit begins. After the death of the final eligible survivor, any remaining after-tax contributions can be itemized as a miscellaneous deduction on your final tax return and are not subject to the 2%-of-adjusted-gross-income limit.

Taxation of disability benefits
Temporary and permanent disability benefits are subject to federal taxation. This information will be reported on your Form 1099-R.

Taxation of state insurance coverage
If you have a non-IRS dependent on your state health and dental policies, you will receive a Form W-2GI+ from the Illinois Office of the Comptroller to use for filing your state and federal taxes. You will need to add the premium amount that is paid by the State to your annual gross income, because it's subject to federal income tax.

Form W-2GI+ is also sent to you if your group term life insurance coverage is over $50,000.

Lump-sum payments & rollovers

There are special tax exemptions and/or rule conditions that you may qualify for not listed here. You should consult with your tax advisor or the IRS for specific information before receiving your benefit payment.

All lump-sum payments, including death benefits (before and after retirement), refund of survivor contributions and refund of contributions after withdrawal from service, are subject to federal income tax withholding.

There are two ways to receive your lump-sum payment eligible for a rollover:

1. The payment can be made directly to a qualified plan; or
2. The payment can be made to you.

How you choose to receive the payment will affect the taxes you owe on the lump-sum payment amount.

Taxes and penalties of a lump-sum payout
When your lump-sum payment is made directly to you, it will be subject to a mandatory 20% federal withholding tax rate in the year it's received. When filing your taxes, you'll report any amount of taxes withheld and the IRS will credit that toward any income tax you may owe.

Additional 10% early distribution tax on refunds before age 55
A refund of contributions following severance of employment before age 55 is subject to a 10% early distribution tax if you do not roll it over to a qualified plan.

The early distribution tax does not apply to a refund of contributions following severance of employment after age 55 or from death or disability. Beneficiaries are generally not subject to the 10% early distribution penalty on a lump-sum payment.

The following plans qualify for tax-free rollovers:

- 401(a)
- 401(k)
- 403(b)
- 457(b) (*see Limitations on rollovers*)
- IRAs (SIMPLE and traditional)

Direct rollover
By choosing a direct rollover, which is transferring the retirement funds directly to the new plan that accepts rollovers, you are able to avoid paying taxes on your funds until you begin withdrawals – with the exception of the after-tax funded Roth IRA *(cont.)*