Box 2a on your 1099-R: an explanation of the "General Rule"

This letter is a written explanation of how we calculate the taxable amount shown in Box 2a on IRS Form 1099-R. We hope providing a written answer will be easier to understand and review.

There are two types of IMRF member contributions: "previously taxed" and "tax deferred."

Previously taxed contributions

If you made IMRF member contributions *before* 1984, the money used to pay those contributions had already been subject to federal income tax. In addition, if you made a payment to IMRF to purchase past service credit or to reinstate service credit, in most cases the money used to make those payments had already been subject to federal income tax. These contributions and payments are considered "previously taxed" because you've already paid tax on the money used to make them.

Tax deferred contributions

If you made contributions since 1984, the money used to pay those contributions has *not* been subject to federal income tax. The member contributions were deducted from your pay checks without being taxed. Therefore, you have not been taxed on the money used to make those contributions. Those contributions have been deducted from the taxable amount that your employer shows on your W-2.

To avoid taxing these amounts twice, the IRS allows us to report what portion of your monthly pension payments is a return of the contributions you already paid taxes on (your "previously taxed" contributions.

If you retired before 1994, IMRF calculated this amount using a formula called the "General Rule" and life expectancy tables from the IRS. The result is a "recovery" that extends over your expected lifetime or over the joint life of you and your spouse (if applicable). (**Note**: Pensions that started before 1987 followed different rules.) The formula is:

Your previously taxed contributions
divided by
The total amount we expect to pay over your/joint lifetime
The result is a percentage (your "exclusion ratio") that is applied to each monthly payment.

For example:

Your "previously taxed" contributions $9,000.00

Your monthly pension amount $1,000.00

Expected payment over your/joint lifetime $308,400.00

Your "exclusion ratio" is 2.9%
($9,000.00 / $308,400.00)

Of each $1,000.00 monthly payment, 2.9% is *not* taxable. Therefore, $971.00 *is* taxable and $29.00 is not taxable. We will continue to apply the 2.9% exclusion ratio until you have recovered all of your $9,000.00 previously taxed contributions.

The portion of your pension that is *not* taxable is shown in Box 5 of the 1099-R. It is this amount that the IRS considers a return of your "previously taxed" contributions. If you subtract the amount in Box 5 from the amount in Box 1 (Gross distribution), you will end up with the amount shown in Box 2a (Taxable amount).

If you have any further questions, please call us at 1-800 ASK-IMRF (1-800-275-4673).