

IMRF Lump Sum Death Benefit

This letter is for informational purposes only and should not be construed as tax advice. Should you have any further questions, we encourage you to contact your tax advisor.

This letter explains the IMRF lump sum death benefit and provides information about federal taxes on this benefit.

Note: *This letter discusses only the IMRF Lump Sum Death Benefit. If other payment options are available when a member dies, the beneficiary will receive an option letter describing these benefits.*

The IMRF Death Benefit

The IMRF death benefit is an employer paid benefit to which there was no entitlement prior to the death of the member. The death benefit for active members (after one year of service) is one year's salary plus member contributions and interest. For a retired member, the death benefit is \$3,000.00.

Why the IMRF Death Benefit is taxable

While some forms of death benefits, such as life insurance payments, are not subject to income tax, the IMRF lump sum death benefit is taxable.

Payments from insurance are not subject to income tax because the member paid the premiums on the policy using previously taxed money.

Unlike the insurance policy example above, IMRF *employers* pay for the IMRF death benefit. Since the member does not use previously taxed money to pay for the benefit, the IRS considers the death benefit taxable to the beneficiary.

Receiving the IMRF Lump Sum Death Benefit

If the named beneficiary is the member's spouse, he or she may choose to:

- have the lump sum death benefit paid directly to him or her. In that case, IMRF must withhold 20 percent for federal income tax withholding

or

- have the lump sum death benefit payment rolled over into a traditional IRA or other qualified retirement plan. In that case, it is not subject to income tax until the spouse withdraws it



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If the named beneficiary is not the member’s spouse, that beneficiary can roll over the death benefit payment into an inherited IRA. Inherited IRAs have different distribution rules and cannot be combined with your other IRA accounts. (For information on inherited IRAs, please contact your tax advisor.). The death benefit payment is taxable to the beneficiary in the year IMRF issues the check.

How to Report on IRS Form 1040 or 1040A

If you receive a death benefit payment from IMRF, you would report this payment on the pension line of IRS Form 1040 or 1040A. On the 2002 form this is line 16 on IRS Form 1040 and line 12 on IRS Form 1040A. The pension line of these forms has two boxes. For the examples below, we will refer to these as “Box a” and “Box b.”

“Box a” is for the gross amount received, and “Box b” is for the taxable portion of the payment. For our examples we will assume that there was only one beneficiary with no other pension or death benefit payments.

Note: *If there were additional pension or death benefit payments, you would add those payments to the amounts shown in our examples.*

- **\$15,000 Death Benefit – Entire amount paid to you, you roll nothing over**

Box 1 (gross distribution) on IRS Form 1099-R shows the \$15,000 death benefit. Box 2a (taxable amount) on IRS Form 1099-R also shows the \$15,000 death benefit. Include the amount from Box 1 on the 1099-R in *Box a* on the 1040/1040A. Include the amount from Box 2a on the 1099-R in *Box b* on the 1040/1040A.

- **\$15,000 Death Benefit - \$8,000 paid to you, you roll over \$7,000**

In this case you received two IRS Forms 1099-R from IMRF. One for the \$7,000 you rolled over into an IRA or qualified retirement plan, and one for the \$8,000 which you did not roll over. To complete the IRS Form 1040 or 1040A, you add together the figures given on both Forms 1099-R.

Box 1 (gross distribution) from both IRS Forms 1099-R would total \$15,000. Box 2a (taxable amount) from both IRS Forms 1099-R would total \$8,000 (\$15,000 less the \$7,000 rolled over).

Show the total death benefit of \$15,000 in Box a on IRS Form 1040 or 1040A and show \$8,000 in *Box b*.

Information about payments from pension plans can be found in IRS Publication 575, “Pension and Annuity Income.” You can obtain this publication on the IRS web site at www.irs.gov or by calling 1-800-TAX_FORM (1-800-829-3676). If you have questions about the IMRF death benefit, please call an IMRF Member Service Representative at 1-800-ASK-IMRF (1-800-275-4673).

