

Reminder

A monthly guide about IMRF topics of interest.

- Route to:**
- Authorized Agent
 - Asst. to AA
 - Personnel/HR
 - Data Processing
 - Payroll Dept.
 - Accounting/Finance
 - Other

Hiring an IMRF retiree; Early withdrawal tax

Contact IMRF if you hire an IMRF retiree

Many factors are involved in determining if a retiree's pension will be affected by a return to work. If you are aware that you are hiring an IMRF retiree, you should contact IMRF regardless of the hourly standard of the position the retiree will hold. In addition, the retiree must also contact IMRF before he or she accepts the position to discuss how his or her pension may be affected. **Failure to inform IMRF of a return to work that qualifies for IMRF participation could result in significant financial repercussions for a retiree.** (This also applies to newly elected/appointed officials, if the office is one where they previously earned any IMRF pension credit, or if they elect to participate in IMRF while in a brand-new office.)

What about Independent Contractors?

Some employers think that hiring an IMRF retiree as an independent contractor will avoid any potential consequences to the retiree's pension. **This is not always the case.** A retiree's pension could be affected by working as an independent contractor if:

- The retiree retired under the Early Retirement Incentive (ERI). If an ERI retiree returns to work for any IMRF employer in any position, **even as an independent contractor**, his or her pension will be affected. Not only will the pension be suspended, but severe financial penalties apply.
- The retiree is incorrectly classified as an independent contractor. In this case, even if the retiree did not retire under an ERI, his or her pension could be affected. In addition, if you have incorrectly classified an employee (including non-retirees) as an independent contractor, you are subject to assessment for retroactive IMRF contributions, and you may be held liable for employment taxes for that employee.

Classifying an Independent Contractor

The Internal Revenue Code has specific requirements for what qualifies as an Independent Contractor classification. For detailed information, see section 3.60A of your Manual for Authorized Agents, or visit Topic 762 on the IRS website (<http://www.irs.gov/taxtopics/tc762.html>).

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Important information about the 10% Early Withdrawal Tax

If a member under age 59 ½ retires from an IMRF employer, but does not separate from service and continues to work for this same IMRF employer in a non-qualifying IMRF position or in an elected position, this member's IMRF pension is subject to an additional 10% early withdrawal tax.

IMRF retirees who retire before they are age 59 ½ are usually eligible for an exception to the 10% early withdrawal tax on their IMRF pension, as lifetime annuities generally qualify for an exception to this tax.

However, this exception requires a **total separation from service** prior to receiving a retirement benefit from the employer sponsoring the retirement plan. **This 10% additional tax will apply to each month's pension payment, until the member reaches age 59 ½ or leaves employment with the IMRF employer.**

