



Retired Public Safety Officers: Withholding Changes Mid-Year

Tax Letter No. 20 10/2010

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.

Eligibility

Some IMRF members are eligible to take a deduction of up to \$3,000 when filing their federal income tax, **IF eligible members:**

- 1) were public safety officers (PSO) when they terminated IMRF employment and retired at full retirement age, and
- 2) have their insurance paid by having the premiums deducted from their IMRF pension and paid directly to their insurance carrier.

Members that file **IMRF Form 7.12D** "Election for Deductions for Health or Long Term Care Insurance Premiums Paid Directly to Insurer," or **7.12E** "Election for Deductions for Health or Long Term Care Insurance Premiums Paid Through Employer or Endorsed Plan Administrator." for the deductions under this program are assisted by IMRF in two ways:

- 1) we **adjust the federal withholding** from the monthly check by reducing the amount used to calculate federal withholding (see "Basis for federal withholding" on the example on Page 2). This will help to **match the federal withholding to the taxes due** when you file your federal income tax return, and
- 2) we **send the member a letter** at the end of the year confirming the amount of the eligible deduction for their tax records.

Amount of monthly deposit may decrease

Some members become concerned when the amount of their monthly deposit goes down even though nothing has changed. When processing the monthly pension for the member, **the federal withholding changes once the \$3,000 amount is reached.**

In the example on the following page, the \$3,000 limit is reached in June. For June, the amount used to calculate federal withholding is reduced by \$170 instead of the previous \$566. This causes higher federal withholding and a lower net check. For the July check there is no adjustment and again the net check changes.

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Illinois Municipal Retirement Fund

Member Services Representatives 1-800-ASK-IMRF (1-800-275-4673)

Example of PSO \$3,000 Withholding

| | (a) Gross Pension | (b) Insurance | (c) Reduction to withholding basis * | (d) = a - c Basis for federal withholding | (e) Withholding (based on column d)(Married/2) | (f) = a-(b + e) Net Check |
|-------------|-------------------------|------------------|---|--|---|------------------------------|
| January | 5,000.00 | 566.00 | 566.00 | 4,434.00 | 357.15 | 4,076.85 |
| February | 5,000.00 | 566.00 | 566.00 | 4,434.00 | 357.15 | 4,076.85 |
| March | 5,000.00 | 566.00 | 566.00 | 4,434.00 | 357.15 | 4,076.85 |
| April | 5,000.00 | 566.00 | 566.00 | 4,434.00 | 357.15 | 4,076.85 |
| May | 5,000.00 | 566.00 | 566.00 | 4,434.00 | 357.15 | 4,076.85 |
| June | 5,000.00 | 566.00 | 170.00 | 4,830.00 | 416.55 | 4,017.45 |
| July | 5,000.00 | 566.00 | | 5,000.00 | 442.05 | 3,991.95 |
| August | 5,000.00 | 566.00 | | 5,000.00 | 442.05 | 3,991.95 |
| September | 5,000.00 | 566.00 | | 5,000.00 | 442.05 | 3,991.95 |
| October | 5,000.00 | 566.00 | | 5,000.00 | 442.05 | 3,991.95 |
| November | 5,000.00 | 566.00 | | 5,000.00 | 442.05 | 3,991.95 |
| December | 5,000.00 | 566.00 | | 5,000.00 | 442.05 | 3,991.95 |
| | 60,000.00 | 6,792.00 | 3,000.00 | | | |

*The adjustment stops once the \$3,000 level is reached.

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