Illinois Municipal Retirement Fund

GENERAL MEMORANDUM

Number: 512

Date: October 10, 2003

To: All Authorized Agents

Subject: Eligibility for Separation Refund of IMRF Contributions

A former IMRF member may receive a Separation Refund of IMRF contributions only in certain circumstances. The former member must **terminate employment as well as IMRF participation** to be eligible for a contribution refund. IMRF cannot pay a refund to a former member who continues to work for his or her IMRF employer, even though the former member is no longer in IMRF and even if he or she is currently participating in another retirement system.

This rule regarding **eligibility for a separation refund is mandated by federal law**. The Internal Revenue Code requires that qualified retirement plans—like IMRF—limit distributions to individuals who have left employment with the employer that provided the plan. Terminating participation without terminating employment is insufficient.

This eligibility requirement can be a trap for the unwary. The following examples illustrate how the eligibility requirements can impact IMRF members:

Employee does not participate in any public retirement system
A school district cafeteria worker who has been participating in IMRF has her hours reduced to below the employer's IMRF hourly standard. The employee is no longer eligible to participate in IMRF, however, she continues to work for the school district. The employee is not eligible for a refund of her IMRF contributions. This is because employment with the school district continues.

Employee now participates in the Teachers' Retirement System
A teacher's aide who has been participating in IMRF becomes a teacher with the same school district. If there is no termination of employment between positions, the former aide, now a teacher participating in the Teachers' Retirement System, is not eligible for a refund of her IMRF contributions. This is because employment with the school district continues.

Employee now participates in local police pension fund
A dispatcher for a village police department who has been participating in IMRF becomes a police officer. As a police officer, the former dispatcher is now eligible to participate in the village's police pension fund. If there is no termination of employment between positions, the former dispatcher is not eligible for a refund of IMRF contributions. This is because employment with the village continues.

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Participation in other public pension funds
Using the examples on the previous page, employees who leave IMRF participation to participate in:

- The Teachers' Retirement System—employees may eventually use their IMRF service credit for a pension under the Retirement Systems Reciprocal Act, if they have at least one year of IMRF credit. If the employee has less than 12 months of IMRF service credit, no benefit, except a refund of contributions at termination of employment, is payable.

- A police pension fund—employees will not be able to use their IMRF service credit for a pension under the Retirement Systems Reciprocal Act. Under current law, there is no reciprocity between IMRF and a police pension fund. If the former police officer is not vested with IMRF, no benefit, except a refund of contributions at termination of employment, is payable.

Additional eligibility requirement
There is one other eligibility requirement for an IMRF refund: a member is not eligible for an IMRF refund if he or she is age 55 or older and is entitled to a monthly pension of at least $30. However, the member can receive a refund if he or she will roll it over into another defined benefit retirement plan to purchase qualifying service credit.

Form 6.41 accommodates both situations
The current version of IMRF Form 6.41, "Termination of IMRF Participation," (revised 09/01) allows employers to indicate if the employee is either:

- Terminating employment (employer enters the last day of employment) or

- Terminating IMRF participation only and the employment relationship continues (employer enters the last day of IMRF participation)

When an employee terminates IMRF participation—even if the employee will continue working for your unit of government—you should submit a termination form. When the employee later terminates employment, you should submit a termination form again. This will allow IMRF to maintain accurate records and pay separation refunds promptly for those employees who apply for a refund of IMRF contributions.

If IMRF receives an application for benefits from a member, but the member's former employer has not submitted a termination form, we will send a letter to the employer. In the letter we ask the employer to verify the member's termination and to enter the last date of employment. In those cases, once the completed letter is returned, the letter serves as the member's termination form.

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Maintaining a supply of current forms

If you submit paper termination forms to IMRF and have a supply with a revision date earlier than September 2001, please discard those forms and request a new supply.
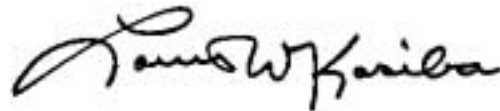
Submitting termination forms online

If you have a User ID and password for the secure Employer Access area of IMRF's website, you can submit electronic termination forms. Many IMRF employers find submitting forms online both efficient and convenient. In 2003, IMRF has received more than 6,000 electronic termination forms. To apply for an Employer Access User ID and password, submit IMRF Form 2.80, "Employer Access User ID — www.imrf.org."

Questions?

If you have any questions regarding your employees' eligibility for a refund of IMRF contributions, please contact an IMRF Member Service Representative at 1-800-ASK-IMRF (1-800-275-4673) Monday through Friday, 7:30 A.M. to 5:30 P.M.

Sincerely,

Louis W. Kosiba
Executive Director