Member Portion of Early Retirement Incentive (ERI)

In most cases, if a member purchased an Early Retirement Incentive (ERI), the money used to pay for the ERI has 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 the contribution or purchase.

Understanding "previously taxed" contributions

You may know that contributions you made *before* 1984, have already been subject to federal income tax. In other words, you already paid tax on the money. Similarly, if you purchased Early Retirement Incentive (ERI), you've probably already paid tax on that money and it is also considered "previously taxed." To make sure that you do not pay taxes twice on this money, 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).

An example purchased ERI service credit

John Doe retired under ERI. His cost to purchase additional years of service credit for ERI was $13,000 which he elected to have deducted from his retirement payment over a 24 month period. This amount ($13,000) is considered "previously taxed" whether paid in one lump sum or deducted over a period of time. John Doe also had made tax contributions totaling $7,000 prior to 1984. On John Doe's Certificate of Benefits, his tax information shows previously taxed contributions totaling $20,000 (the sum of $13,000 and $7,000). This section of the Certificate of Benefits also tells him what part of his monthly payment has been previously taxed. In John Doe's case, this amount totals $76.92 per month (based on an IRS formula).

How "previously taxed" contributions appear in your monthly pension payment

You may be confused by how your "previously taxed" contributions appear in your monthly pension payment. To continue with the John Doe example, his monthly pension payment includes the $76.92, but this amount *will not* be reported to the IRS. Remember, he already paid taxes on this amount. Sometimes members think this amount is being deducted from their payment amount, when in fact it is only being deducted from the total reported to the IRS. Until the total $20,000 contributed by John Doe has been paid to him (at the rate of $76.92 per month as part of his monthly payment), his yearly IRS 1099-R form will also reflect this lesser amount.

ERI payments that are not considered "previously taxed"

If your employer paid the cost for your ERI or you used a surviving spouse refund toward your ERI cost, these are not considered previously taxed contributions. If the dollar total required to purchase ERI is the same $13,000 as in John Doe's example, but paid by the employer or with a surviving spouse refund, then the Certificate of Benefits will show only $7,000 previously taxed in the tax information section. The amount reported to the IRS each year and your monthly amount considered taxable will increase, since the amount not previously taxed has increased. The actual amount you receive will not be affected, only the amount reported to the IRS.

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