Simplified Method ("Safe Harbor Calculation")

This letter provides a summary of the information found in IRS Publication 575, "Pension and Annuity Income." It shows how IMRF determines what portion of your IMRF monthly pension is not taxable using the Simplified Method.

When you receive your IMRF pension, a portion of the payment may not be subject to federal income tax (may ***not*** be taxable). Your member contributions determine how much of your pension payment is subject to federal income tax.

There are two types of IMRF member contributions: contributions that *were* previously taxed, and contributions that were *not*.

Contributions that WERE previously taxed

Prior to 1984, the money you used to pay your IMRF contributions was included in your taxable income. Therefore, if you made IMRF member contributions *before* 1984, the money used to pay those contributions had already been subject to federal income tax.

In addition, if you made a payment to IMRF to purchase past service credit or to reinstate service credit (repay a refund), in most cases the money used to make those payments had 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 them, and you do not have to pay tax on them again.

Note: *If you rolled over money from an IRA or other tax-deferred retirement plan to purchase past service, those payments are not considered previously taxed, and the above does not apply.*

Contributions that were NOT previously taxed ("tax-deferred contributions")

If you made contributions to IMRF in or after 1984, the money used to pay those contributions ***has*** not been subject to federal income tax. This means the member contributions your employer deducted from your pay checks were ***not*** reported as taxable income.

When you receive your pension payment, that payment consists primarily of your tax-deferred contributions, your employer(s)' contributions, and investment returns. Therefore, most of your pension will be reported as taxable (subject to federal income tax) when you receive your IRS Form 1099-R each January.

Determining the tax-free portion of a pension

The IRS developed a method of determining the tax-free portion of a retirement pension, referred to as the "Simplified Method" or "Safe Harbor." The Simplified Method provides a dollar amount of each monthly payment that is *not* subject to federal income tax.

The dollar amount is determined by dividing the total amount of your **previously taxed** contributions (you can find this amount on your IMRF Certificate of Benefits) by the number of pension payments you can expect to receive.

Under the Simplified Method, you would use the IRS table shown below to determine the number of pension payments you can expect to receive.

FIRST, determine the number of payments you can expect to receive

Marital status and date your pension was effective...

Your age when pension began	Single or Married Before Nov 20, 1996	Single After Nov 20, 1996	Married After Nov 20, 1996 through Dec 31, 1997	Married After Dec 31,1997
55 and under	300	360	360	*See table below to determine the number of payments*
56 - 60	260	310	310	
61 - 65	240	260	260	
66 - 70	170	210	210	
71 or older	120	160	160	

If effective after December 31, 1997, and married...
and the pension is payable over the lives of more than one individual, then combine the ages of you and your spouse when your pension began. Then locate the number of anticipated payments in the table below:

Combined Age of Annuitants	*Number of Anticipated Payments*
110 and under	410
More than 110 but not more than 120	360
More than 120 but not more than 130	310
More than 130 but not more than 140	260
More than 140	210

SECOND, calculate using the Simplified Method

The Simplified Method allows you to calculate the amount of your monthly pension payment that is not subject to federal income tax. This amount would be determined as follows:

$$\frac{\text{Amount of previously taxed contributions (from your Certificate of Benefits)}}{\text{Number of monthly payments (from IRS table above)}} = \text{Dollar amount of monthly pension not subject to federal income tax}$$

For example:

$4,275.19 in previously taxed contributions, and you are expected to receive 260 payments

$4,275.19 divided by 260 = $16.44 of each pension payment is not subject to federal income tax.

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