

# Recovering your previously taxed contributions

## “General Rule” and “Simplified Method”

When you receive your IMRF pension, a portion of the payment may not be subject to federal income tax. Your member contributions determine what portion of your pension is and isn't subject to federal income tax.

There are two types of IMRF member contributions: “tax deferred” and “previously taxed.”

### **Tax deferred contributions**

If you made contributions since 1984, the money used to pay those contributions has not been subject to federal income tax. The member contributions were deducted from your pay checks without being taxed. Therefore, you have not been taxed on the money used to make those contributions.

### **Previously taxed contributions**

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, 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.

### **Two methods to recover**

The IRS has two methods that can be used to “recover” (receive) your “previously taxed” contributions in order to avoid being taxed twice. The two methods are the “General Rule” and the “Simplified Method.” The recovery continues until you or your spouse have recovered (received) all of your previously taxed contributions.

#### **General Rule**

Under the “General Rule,” the Internal Revenue Service (IRS) life expectancy tables are used to determine the percentage (the “exclusion” percent) of each monthly payment that represents a return of your previously taxed contributions.

The IRS life expectancy tables show your life expectancy, and if you are married, the additional years your spouse is expected to receive an IMRF surviving spouse pension.



We use these “life expectancies” to calculate the total amount of pension payments we will make during your (and if appropriate, your spouse’s) lifetime. The percentage determined under the General Rule equals your previously taxed contributions divided by the total amount of pension payments you (and your spouse) can expect to receive.

### **Simplified Method**

Under the “Simplified Method,” the total amount of your previously taxed contributions is divided by a number obtained from the IRS’s “simplified life expectancy table.” The result determines the dollar amount of your monthly pension that is not taxable and represents a return of your previously taxed contributions. This method considers your age only, not the joint life expectancy of you and your spouse.

Under the Simplified Method, the total amount of your previously taxed contributions is divided by the number of months from the IRS table (300, 260, 240, 170, or 120 months).

### **When each method can be used**

For members that retired after 2002, the IRS only allowed IMRF to use the Simplified Method Rule. From 1994 to 2002, IMRF used the method that allowed the member to recover the fastest (usually the Simplified Method). Before 1994, IMRF used the General Rule. The effective date of your retirement can be found on your IMRF Certificate of Benefits.

- Under the Simplified Method, a dollar amount is determined.  
The dollar amount represents a return of your previously taxed contributions. You and your spouse will recover your previously taxed contributions over your life expectancy regardless of whether you live the expected years.

If you don’t live the expected years, your spouse will continue to recover your previously taxed contributions at the same rate. The same dollar amount will not be taxable from his or her monthly pension payments.

- Under the General Rule, a percentage is determined.  
The percentage is applied to the amount of your monthly pension and represents the return of your previously taxed contributions.

The recovery of your previously taxed contributions takes place over the joint life expectancy of you and your spouse.

If you pass away before your life expectancy, it will take longer for your spouse to recover your previously taxed contributions because the same percentage will be applied to the surviving spouse pension. The surviving spouse pension is usually 50% of the member’s pension. Therefore, a smaller amount of previously taxed contributions will be recovered with each



payment.

**If you choose the optional pension plan**

If you retire early and elect to receive your pension under the optional plan (a larger pension paid to age 62 and a reduced pension paid thereafter), the General Rule may provide a faster recovery.

It may be faster because you are receiving more of your pension in the years before age 62. Please remember that if you pass away before your life expectancy, the recovery will be different because the exclusion percent will be used with the surviving spouse pension payment amounts.

**Choosing/changing the method**

Members that retired before 2003 could elect which recovery they used. If you file tax return(s) using one of these methods, you may be able to change to a new method. To be eligible to change methods, you must file an amended return for any year you previously filed using the old method. Since amended returns must be filed within three years from the date of the original return, this usually limits changes to members who retired within the last three years.

**IRS publications**

For more information about the two recovery methods, you can request IRS Publication 575, “Pension and Annuity Income,” which includes information about the “Simplified Method,” or in IRS Publication 939, “Pension General Rule” which explains the “General Rule.” You can request these publications by calling the IRS at 1-800-TAX-FORM (1-800-829-3616).

