GARS
General Assembly Retirement System
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Taxes, Lump-Sum Payments and Rollovers Fact Sheet

Common lump-sum payments

The most common lump-sum payments are termination refunds when leaving state employment, death benefits paid to your beneficiaries, and survivor contribution refunds.

Early distribution penalty

If you terminate state employment and take a refund of your GARS contributions prior to age 55, you are subject to a 10% early distribution penalty, in addition to the mandatory 20% federal withholding tax, if you do not roll the refund into a qualified plan. This early distribution penalty does not apply if you receive a termination refund after age 55, or because of death or disability. Lump-sum death benefits and survivor contribution refunds are typically not subject to the 10% early distribution penalty.

*Limitations on rollovers

You can roll any of the taxable portions of your funds into a 457(b) Deferred Compensation Plan, but are not permitted to roll after-tax contributions into this plan. Retirement plans, including qualified employer plans, are not required to accept rollovers, so you'll need to check with the plan administrator before requesting the rollover.

Rollovers to IRAs

You must report any after-tax contributions you roll to an IRA to the IRS. Some IRAs limit the amount of transfers you can make within a 12-month period.

**Rollovers to Roth IRAs

You may roll a lump-sum payment from a tax-deferred plan into a Roth IRA, but because Roth IRAs are funded with after-tax dollars, you'll be required to pay income tax on your contributions at the time of the rollover.

Taxation of monthly GARS benefits

General Assembly Retirement System is an Internal Revenue Code 401(a) qualified plan. All GARS benefits are exempt from Illinois state income tax, but are subject to federal taxes. When applying for a benefit, you may choose how you want your federal taxes withheld. If you don't make an initial election, we withhold federal taxes at the rate for a married person with three (3) exemptions. You may change your withholding election at any time. The Comptroller's Office will send you a 1099-R tax statement every January.

If you made after-tax contributions or purchased service credit with after-tax dollars, part of your benefit will not be subject to federal taxes. GARS calculates the portion of your benefit that is exempt from federal taxes using the IRS Simplified Method. For more details, go to ***irs.gov*** and refer to IRS Publication 575, *Pension and Annuity Income*.

If you have a non-IRS dependent on your state health and dental policies, or if you have group term life insurance coverage over $50,000, the Comptroller's office will send you a Form W-2GI+.

Taxation of GARS lump-sum payments

When we send a lump-sum payment directly to you, it is subject to a mandatory 20% federal withholding tax rate in the year you receive the payment. This withholding will be reported to the IRS and credited toward any income tax you may owe. Lump-sum payments include death benefits paid to your beneficiaries, refunds of survivor benefit contributions and termination refunds when you leave your elected position.

There are two ways to receive your lump-sum payment eligible for a rollover:

1. The payment can be made directly to a qualified plan; or
2. The payment can be made to you.

How you choose to receive the payment will affect the taxes you owe on the lump-sum payment amount.

Rollovers to a qualified plan

You may have all or a portion of a lump-sum payment made directly to a qualified plan to avoid a tax penalty.

Qualified plans include:

- 401(a), 401(k), and 403(b)
- *457(b) (*See Limitations on Rollovers*)
- IRAs (SIMPLE and traditional)
- **Roth IRAs (See Rollovers to Roth IRAs)

If you choose to receive a lump-sum payment made directly to you, you have 60 days to roll the payment into a qualified plan. However, we cannot reverse the mandatory 20% federal tax withholding, so you are responsible for supplying the additional funds.

Please consult with the Internal Revenue Service (IRS) or your tax advisor for additional questions.