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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 at retirement.

### Early distribution penalty

If you terminate State employment prior to age 55 (50 for public safety employees), and take a refund of your SERS contributions prior to age 59½, you are subject to a 10% early distribution penalty if you do not roll the refund into a qualified plan. This early distribution penalty does not apply if you terminate State employment in or after the year you attain age 55 and receive a termination refund, or receive a lump-sum payment because of death or disability. Lump-sum death benefits, survivor contribution refunds and alternative formula 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, however you are not allowed to roll after-tax contributions into this plan.

### 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.

### Taxation of Monthly SERS Benefits

All SERS benefits are exempt from Illinois State Income Tax, but are subject to federal taxes, with the exception of monthly occupational disability benefits and monthly occupational death benefits. 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. SERS calculates the portion of your benefit that is exempt from federal taxes using the IRS Simplified Method. For more details, see 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 SERS 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, and termination refunds when you leave state service.

### 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)
- 403(b)
- \*457(b)
- IRAs (SIMPLE and traditional)

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.

You should consult with your tax advisor for additional questions.