

# Chapter Thirteen: Death Benefits

## Benefits payable

TRS provides two types of death benefits:

- a refund of any remaining accumulated contributions and
- monthly or lump-sum survivor benefits.

These benefits may be paid to separate beneficiaries or both benefits may be paid to the same beneficiaries.

TRS must have a copy of the deceased member's or annuitant's death certificate on file before death benefits can be processed. Other supporting documents may also be required.

## Designation of beneficiaries

To designate beneficiaries, members must complete a Member Information and Beneficiary Designation (MIBD) form. If TRS does not have an MIBD form on file for the member, death benefits are distributed as follows:

- a return of any accumulated contributions is paid to the member's surviving spouse or civil union partner or, if none, to the member's estate and
- survivor benefits are paid to an eligible dependent beneficiary or, if none, to the member's estate.

The beneficiaries designated for the refund of accumulated contributions and survivor benefits will be noted in the "Beneficiary Information" section of the member's TRS Benefits Report.

Members and annuitants may change beneficiary designations at any time and should review their designation periodically. Members may verify their beneficiary designations by visiting their secure member account online or by contacting TRS. To change beneficiaries, a new MIBD form must be completed. MIBD forms are available through the member forms area of the TRS website or by calling Member Services at 877-927-5877 (877-9-ASK-TRS).

## Types of beneficiaries

The type of benefit for which survivors are eligible is determined by the survivor's status at the time of the member's death. Monthly survivor benefits can be paid only to dependent beneficiaries.

A **dependent beneficiary** is

- a spouse to whom the member has been married for at least one year, except where a child is born of the marriage in which case the one-year period is not applicable;
- a civil union partner to whom the member has been partnered for at least one year;
- an unmarried natural or adopted child under age 18, or between ages 18 and 22 if he or she is a full-time student in an accredited educational institution, or an unmarried child of any age who is dependent by reason of a physical or mental disability and claimed as a dependent on the member's final federal income tax return, or



- a dependent parent who received at least half of his or her support from the member for the 12-month period immediately prior to the member's death.

For an adopted child to be an eligible dependent beneficiary, the adoption proceedings must have been finalized prior to the member's death and while the child was a minor. For purposes of determining dependency, "disability" is defined as an inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to last for a continuous period of 12 months or more. A parent may be an eligible dependent beneficiary only if there is no other dependent beneficiary. A trust can receive monthly survivor benefits on behalf of a disabled dependent beneficiary. The trust must specifically mention TRS and contain a promise that the TRS survivor benefits will be used solely for the care and benefit of the dependent beneficiary. See the *TRS Member Guide* for more information.

A **nondependent beneficiary** is any other designated person or entity that is not a dependent beneficiary.

A member may designate a primary beneficiary on the MIBD form to receive survivor benefits. If this individual is a dependent beneficiary, he or she may select either monthly benefits or a lump-sum benefit. Only a lump-sum benefit is payable if the member designates both a dependent and a nondependent primary beneficiary.

Alternate beneficiaries named on the MIBD form will receive benefits only if all designated primary beneficiaries predecease the member. If the member's beneficiary designation includes more than one person, the benefits are divided equally among the living beneficiaries of that class (primary or alternate).

The **automatic designation** option on the MIBD form is an alternative to naming specific individuals. Automatic designation names all eligible dependents as beneficiaries. If no dependent beneficiaries survive, the benefits are paid to the member's estate.

## Beneficiary refund

Accumulated contributions are returned as a lump-sum payment.

Beneficiaries of active or inactive members will receive a return of all of the member's retirement contributions, plus interest, and the portion paid towards the annual increase in annuity. The member's TRS Benefits Report lists the contributions and interest that are refundable after death.

Beneficiaries of annuitants will receive accumulated contributions minus the amount the member received as a retirement annuity. Annuitants who elected a reversionary retirement forfeit the beneficiary refund as a condition of receiving the reversionary benefit.

## Survivor benefits

### Eligibility

Beneficiaries are eligible for a lump-sum survivor benefit if the member's death occurs:

- while the member is an annuitant;
- while the member is employed as a teacher;



- within the first 12 months following the member's last day of earnings as a teacher;
- while the member is on an approved leave of absence;
- while the member is receiving a nonoccupational or an occupational disability benefit;
- while the member is an inactive member and has 20 or more years of service.

To determine eligibility for a benefit, service credit under the State Employees' Retirement System of Illinois, the State Universities Retirement System, and the Public School Teachers' Pension and Retirement Fund of Chicago is considered.

Dependent beneficiaries are eligible for monthly survivor benefits if the member had 1.5 years of TRS service credit and at least 60 days of creditable service during the 18 months preceding his or her death.

For an inactive member with fewer than 20 years of service, no survivor benefits are payable unless the member returns to teaching or starts receiving a retirement annuity prior to death.

For an inactive member who had established 20 or more years of service credit, his or her beneficiaries are eligible for survivor benefits calculated as though the member had been in retirement at the time of death.

For an annuitant who has at least one year of service after July 24, 1959, his or her beneficiaries are eligible for survivor benefits, provided that the annuitant did not take a refund of those contributions prior to death. For an annuitant who did **not** have service after July 24, 1959, and died after January 1, 1982, his or her surviving dependent beneficiaries are eligible for survivor benefits up to a maximum of \$200 per month plus a \$1,000 one-time, lump-sum payment.

### **Methods of payment**

The survivor benefit is paid in one of two mutually exclusive ways:

- lump-sum payment or
- monthly benefit payments (available only to dependent beneficiaries).

### **Lump-sum payment**

A lump-sum payment is the only method of survivor benefit payment for nondependent beneficiaries. A dependent beneficiary may choose either a lump-sum payment or monthly benefit payments.

### **Beneficiaries of active members**

For an active member, the lump-sum benefit amount the beneficiaries will receive is equal to 1/6 of the member's highest salary rate within the last four years of service times the number of completed years of TRS service. The minimum benefit equals 1/6 of the member's highest salary. The maximum benefit equals 100 percent of the member's highest salary.



**Example:**

Assume the member had 4.5 years of service credit (use only completed years). The member’s highest salary was \$21,300.

Highest salary	\$21,300
4 ÷ 6	x 0.66667
<b>Lump-sum benefit</b>	<u><u>\$14,200</u></u>

**Beneficiaries of annuitants and inactive members**

For an annuitant or an inactive member who has 20 or more years of service credit, the lump-sum benefit his or her beneficiaries will receive is equal to the *greater* of:

- the annuitant's highest annual salary rate within the last four years of service reduced by 1/6 for each year or partial year since the date the annuitant retired or terminated service to a minimum of 1/6 of the annuitant's highest salary rate,
- the annuitant's survivor benefit contributions, or
- \$3,000.

**Example:**

Assume the annuitant’s highest salary within the last four years of service was \$40,000 and his or her survivor benefit contributions totaled \$6,000. The annuitant had been retired 3.5 years at the date of death. The lump-sum benefit is the greater of:

- $(6 \div 6) - (4 \div 6) = 2/6$   
 $2 \div 6 \times \$40,000 = \$13,333$
- \$6,000, or
- \$3,000

The lump-sum benefit equals \$13,333.

**Monthly payments**

Monthly payments can be made only to surviving dependent beneficiaries or to a qualifying trust established for a surviving disabled dependent beneficiary. These payments may be electronically deposited into a beneficiary’s bank account through direct deposit.

Beneficiaries of an active or inactive member may receive this benefit effective the date of the member’s death. However, a spouse or civil union partner with no dependent children is eligible for this benefit only upon attainment of age 50 if the spouse or civil union partner was not at least age 50 at the time of the member’s death. In addition, a spouse or civil union partner with no dependent children must have been married to the member for a period of at least one year prior to the member’s death.

Beneficiaries of an annuitant will receive this benefit effective the first of the month following the member’s death. However, a spouse or civil union partner with no dependent children is eligible for this benefit only upon attainment of age 50 if the spouse or civil union partner was not at least age 50 at the time of the annuitant’s death. In addition, a spouse or civil union partner with no dependent children must have been married to the member for a period of at least one year prior to the member’s death. The retirement annuity is payable through the month of the member’s death.



A dependent parent may receive benefits only if there is no other dependent beneficiary at the time of the member's death. A dependent parent of an active or inactive member may receive benefits effective the date of the member's death or upon attainment of age 55 if the dependent parent was not at least age 55 at the time of the member's death. A dependent parent of an annuitant may receive benefits the first of the month following the annuitant's death or upon attainment of age 55 if the dependent parent was not at least age 55 at the time of the annuitant's death.

The following examples provide separate Tier 1 and Tier 2 benefit examples for surviving beneficiaries. **Tier 1** members first contributed to TRS before January 1, 2011 or had pre-existing creditable service with a reciprocal pension system prior to January 1, 2011. **Tier 2** members first contributed to TRS on or after January 1, 2011 and have no previous service credit with a pension system that has reciprocal rights with TRS.

### **Beneficiaries of active Tier 1 members**

The monthly payments for a surviving dependent beneficiary of an active Tier 1 member include:

1. a \$1,000 one-time, lump-sum payment *plus*
2. monthly income as follows:
  - a. one dependent - the lesser of 30 percent of the member's average monthly salary or \$400 per month.

Assume the average salary is \$45,000

$\$45,000 \times 30\% = \$13,500 \div 12 = \$1,125$  monthly benefit  
\$400 is less than \$1,125, so the monthly benefit is \$400.

- b. spouse or civil union partner and one child - the lesser of 60 percent of the member's average monthly salary or \$600 per month.

Assume the average salary is \$45,000

$\$45,000 \times 60\% = \$27,000 \div 12 = \$2,250$   
\$600 is less than \$2,250, so the monthly benefit is \$600.

- c. spouse or civil union partner and two or more children - the lesser of 80 percent of the member's average monthly salary or \$600 per month.
  - d. other combinations of dependent beneficiaries - varying amounts not to exceed 80 percent of the member's average monthly salary or \$600 per month, whichever is less.

If 50 percent of the member's earned monthly retirement annuity payable at the later of age 60 or the date of death is greater than the preceding calculations, then this amount (**the minimum benefit**) is what the beneficiary will receive each month.

**Average monthly salary** is the average of the member's annual salary rate for the highest four consecutive years within the last 10 years of creditable service immediately preceding death divided by 12 or the average monthly salary for the total period of creditable service if service is fewer than four years.



### **Beneficiaries of Tier 1 annuitants or inactive Tier 1 members**

The monthly payments made to a surviving dependent beneficiary of a Tier 1 annuitant or an inactive Tier 1 member with 20 or more years of creditable service will never be less than 50 percent of the annuitant's gross monthly retirement annuity at the time of death. A dependent beneficiary who chooses the monthly payments receives:

1. a \$1,000 one-time payment *plus*
2. a minimum monthly benefit of 50 percent of the annuitant's gross retirement annuity at the time of death. Beneficiaries of an eligible inactive member will receive 50 percent of the member's earned retirement annuity payable at the later of age 60 or the date of the member's death. However, the beneficiary's monthly payment may be greater if the lesser of the following is more than 50 percent of the annuitant's annuity:
  - a. 30 percent of the annuitant's final average salary divided by 12,
  - b. \$400 per month, or
  - c. 80 percent of the annuitant's original monthly retirement annuity at age 60 or 80 percent of the eligible inactive member's retirement annuity payable at age 60.

#### **Example:**

Assume the annuitant's current retirement benefit is \$1,420.

- The minimum survivor benefit is \$710. ( $\$1,420 \times 0.50 = \$710$ )
- The average salary was \$24,360. Average salary divided by 12 is \$2,030. The original monthly retirement annuity was \$980.
  - a.  $\$2,030 \times 0.30 = \$609$
  - b. \$400 or
  - c.  $\$980 \times 0.80 = \$784$

The lesser of a, b, or c is \$400. The monthly payment the beneficiary will receive is \$710.

### **Beneficiaries of active Tier 2 members**

The monthly payments for a surviving dependent beneficiary of an active Tier 2 member include:

1. a \$1,000 one-time, lump-sum payment *plus*
2. monthly income as follows:
  - a. one dependent - the lesser of 30 percent of the member's average monthly salary or \$400 per month.

Assume the average salary is \$45,000

$$\$45,000 \times 30\% = \$13,500 \div 12 = \$1,125 \text{ monthly benefit}$$

\$400 is less than \$1,125, so the monthly benefit is \$400.
  - b. spouse or civil union partner and one child - the lesser of 60 percent of the member's average monthly salary or \$600 per month.



Assume the average salary is \$45,000

$$\$45,000 \times 60\% = \$27,000 \div 12 = \$2,250$$

\$600 is less than \$2,250, so the monthly benefit is \$600.

- c. spouse or civil union partner and two or more children - the lesser of 80 percent of the member's average monthly salary or \$600 per month.
- d. other combinations of dependent beneficiaries - varying amounts not to exceed 80 percent of the member's average monthly salary or \$600 per month, whichever is less.

If 66.67 percent of the member's earned monthly retirement annuity payable at the later of age 67 or the date of death is greater than the preceding calculations, then this amount (**the minimum benefit**) is what the beneficiary will receive each month.

**Average monthly salary** is the average of the member's annual salary rate for the highest eight consecutive years within the last 10 years of creditable service immediately preceding death divided by 12 or the average monthly salary for the total period of creditable service if service is fewer than eight years.

#### **Beneficiaries of Tier 2 annuitants or Tier 2 inactive members**

The monthly payments made to a surviving dependent beneficiary of an annuitant or an inactive member with 20 or more years of creditable service will never be less than 66.67 percent of the annuitant's gross monthly retirement annuity at the time of death. A dependent beneficiary who chooses the monthly payments receives:

1. a \$1,000 one-time payment *plus*
2. a minimum monthly benefit of 66.67 percent of the annuitant's gross retirement annuity at the time of death. Beneficiaries of an eligible inactive member will receive 66.67 percent of the member's earned retirement annuity payable at the later of age 67 or the date of the member's death. However, the beneficiary's monthly payment may be greater if the lesser of the following is more than 66.67 percent of the annuitant's annuity:
  - a. 30 percent of the annuitant's final average salary divided by 12,
  - b. \$400 per month, or
  - c. 80 percent of the annuitant's original monthly retirement annuity at age 67 or 80 percent of the eligible inactive member's retirement annuity payable at age 67.

#### **Example:**

Assume the annuitant's current retirement benefit is \$1,420.

- The minimum survivor benefit is \$946.71. ( $\$1,420 \times 0.6667 = \$946.71$ )
- The average salary was \$24,360. Average salary divided by 12 is \$2,030. The original monthly retirement annuity was \$980.





a.  $\$2,030 \times 0.30 = \$609$

b. \$400 or

c.  $\$980 \times 0.80 = \$784$

The lesser of a, b, or c is \$400. The monthly payment the beneficiary will receive is \$946.71.

### **Duration of monthly benefits**

Monthly survivor benefits will continue for the life of the spouse or civil union partner. A dependent child will receive benefits until he or she reaches age 18 (or age 22 if he or she is a full-time student), marries, or dies, whichever is earlier. An adult child who is dependent by reason of a physical or mental disability may receive monthly survivor benefits for his or her lifetime if:

- he or she does not marry,
- he or she is not capable of substantial gainful employment, and
- TRS periodically receives a physician certification verifying his or her continuing disability.

Survivor benefits are payable through the end of the month in which the beneficiary's death occurs. No further benefits are payable.

### **Tier 1 annual increases in benefits**

Recipients of monthly survivor benefits are eligible for a 3 percent increase of the current benefit distributed as follows:

- For beneficiaries of annuitants, benefit increases are applied on January 1 after the survivor benefit has been granted.
- For beneficiaries, of active or eligible inactive members, benefit increases are applied on January 1 following the first anniversary of receiving the survivor benefit.

### **Tier 2 annual increases in benefits**

Recipients of monthly survivor benefits are eligible for the lesser of 3 percent or  $\frac{1}{2}$  of the annual increase in the Consumer Price Index of the originally granted survivor's annuity. If the increase in the Consumer Price Index for the preceding calendar year is zero or there is a decrease, then the annuity will not be increased. The benefit will be distributed as follows:

- For beneficiaries of annuitants, benefit increases are applied on Jan. 1 after the survivor benefit has been granted.
- For all other beneficiaries, benefit increases are applied on Jan. 1 following the first anniversary of receiving the survivor benefit.

### **Application procedures**

The person handling the deceased member's affairs must provide TRS with the members' name to report the death of a member. TRS will forward a letter and the appropriate forms to the contact person for the member's designated beneficiaries for completion. The application requires a copy of the member's death certificate as well as a copy of the marriage or civil union certificate and birth certificate for the surviving spouse or civil union partner.





If the member was an active teacher at the time of death, the employer will need to complete a Supplementary Report and return it to TRS. TRS will calculate a lump-sum and monthly benefit option.

The dependent will receive a Survivor Benefits Election form to select either a monthly benefit or a lump-sum payment. This form will be accompanied by information regarding direct deposit of payments, federal income tax withholding, the Teachers' Retirement Insurance Program (TRIP), and the taxability of survivor benefits. Once TRS receives the completed election form and all other required documents, benefits will be processed and then issued by the Office of the Comptroller.

An annuitant's retirement benefit is payable through the end of the month in which his or her death occurs. TRS issues payments at the end of the month for the preceding month. Any payments issued to the annuitant beyond the month of death must be returned to TRS.

## Payment of accumulated contributions

### General rule

As a general rule, previously taxed accumulated retirement contributions returned to survivors of TRS members are excluded from taxable income. Contributions not previously taxed and interest on contributions are included in taxable income in the calendar year in which the contributions and interest are received by the beneficiary. The taxable portion of the payment is treated the same as ordinary income, unless one of the following special tax treatments described applies.

### Special tax treatments

The payment may be eligible for special tax treatments if it qualifies as a "lump-sum distribution." A lump-sum distribution is a payment, within one tax year, of the entire amount payable from TRS on account of the deceased member or annuitant. The special tax treatments are not available, however, if any portion of a distribution from TRS has been rolled over into a qualified retirement plan. Additional restrictions are described in the instructions to IRS Form 4972.

The special treatments available for payments that qualify as lump-sum distributions are:

1. **Ten-year averaging.** If the deceased had attained age 50 prior to January 1, 1986, the beneficiary may be able to elect to figure the tax on the payment using the 10-year averaging method using 1986 tax rates, instead of five-year averaging using current tax rates. Like the five-year averaging rules, 10-year averaging often reduces the tax owed.
2. **Capital gain treatment.** If the deceased had attained age 50 prior to January 1, 1986, the beneficiary may be able to elect to have the part of the payment that is attributable to the member's pre-1974 membership (if any) taxed as long-term capital gain.

## Rollovers

If a member or survivor has questions about rollovers for surviving spouse and non-spouse beneficiaries, please ask him/her contact the TRS Member Services Department at [members@trs.il.org](mailto:members@trs.il.org) or call 877-927-5877 (877-9-ASK-TRS). The rules are complicated and rollover eligibility varies.



## Payment of survivor benefits

### Monthly annuity payments

Survivor benefits that are paid in the form of a monthly annuity are taxable income in the calendar year during which they are received by the beneficiary. However, if the member's contributions for survivor benefits were made on an after-tax basis, a portion of each annuity payment is nontaxable until all of the after-tax contributions have been returned. The nontaxable portion of each monthly payment is determined by allocating a portion of the after-tax contributions to each annuity payment to be made during the expected payment period. Monthly payments are fully taxable after all of the after-tax contributions have been returned.

### Lump-sum payments

Tax deferment for lump-sum payments varies for spouse and civil union partners. If a member or survivor has questions about lump-sum payment taxes, please ask him/her contact the TRS Member Services Department at [members@trsill.org](mailto:members@trsill.org) or call 877-927-5877 (877-9-ASK-TRS).

### Tax reporting for all TRS payments

The Office of the Comptroller will send Form 1099-R to the beneficiary and the IRS reporting the amount paid (including direct rollovers) during a calendar year. In addition to showing the amount paid, the Form 1099-R will report the portion that is taxable, the amount of federal income tax withheld, if any, and any amount directly rolled over.

### State income tax

Benefits received from TRS are not subject to Illinois income tax. Beneficiaries who reside in other states should check with their state's Department of Revenue for information concerning the taxability of benefits.

### How to obtain additional information

Members or beneficiaries may want to consult with a professional tax advisor before they take a payment of benefits from TRS. More specific information on tax treatment of payments from qualified retirement plans can be found in [IRS Publication 575, Pension and Annuity Income](#) and [IRS Publication 590-B, Distributions from Individual Retirement Arrangements \(IRAs\)](#). These publications are available at [www.irs.gov](http://www.irs.gov), from local IRS offices, or by calling 1-800-TAX-FORM.

