

# Chapter Nine: Member Refunds

Members may receive a refund of retirement contributions, or a refund or reduction in the 2.2 upgrade cost if they meet certain criteria. This section covers

- refunds of retirement contributions,
- refunds of the 0.4 percent member retirement contribution (if not already refunded),
- refunds of 1 percent retirement contributions,
- refunds of survivor benefit contributions,
- refunds or reduction of the 2.2 upgrade cost,
- refunds of excess purchases and repayments,
- refunds eligible for rollovers,
- taxability of refunds, and
- repayment of refunds.

## Refunds of retirement contributions

If members terminate teaching with a TRS employer, they may apply for a refund of retirement contributions. This refund consists of the portions used to pay the retirement annuity and the annual increases in the annuity.

Effective July 1, 1998, member refunds include contributions for retirement and annual increases which are 7.5 percent and 0.5 percent of gross earnings, respectively. Lower contribution rates were in effect prior to July 1, 1998.

If members receive a refund of retirement contributions, they are not entitled to any other refunds. The 1 percent survivor benefit contribution, interest accumulated on the total contributions, and health insurance contributions paid after July 1, 1995, are not refundable.

The refundable amount appears as “refundable contributions” on the TRS Benefits Report.

## Eligibility

Members who have terminated their teaching duties with a TRS employer may apply for a refund of their retirement contributions. A member who is on sick leave, a sabbatical leave, an unpaid leave of absence, or has accepted employment with a new TRS-covered employer is not eligible for a refund.

## Effect of receiving a refund

When members accept a refund, they forfeit all rights to TRS benefits. Members considering a refund may want to contact TRS for an estimate of potential retirement and survivor benefits forfeited by accepting the refund. If a member chooses not to receive a refund, the member’s contributions will remain with TRS and will eventually provide a retirement benefit. Members with fewer than five years of service credit are eligible to receive a single-sum retirement benefit at age 65. Members with five or more years of service are eligible to receive a retirement annuity. (See Chapter 11, Retirement Benefits.)



## **Transfer of credit**

TRS cannot transfer creditable service (and the funding for that service) directly to a retirement system in another state. However, many retirement systems permit purchase of out-of-system service. TRS will provide the other system with verification of Illinois teaching service if the member accepts a refund and sends a written request. A member may then make payment for service directly to the other system if this is required or request a rollover of refundable contributions. (See “Refunds eligible for rollovers”)

## **Application procedure**

To obtain a refund, a member must file a Refund Application with TRS. The application is available by calling TRS’s Member Services Division at 877-927-5877 (877-9-ASK-TRS). The application can be returned any time after the member has formally resigned from his or her TRS-covered position. TRS will process the refund and forward it to the Office of the Comptroller for payment when four months have passed since the member’s final day of teaching.

## **Refunds of the 0.4 percent member retirement contributions**

Effective July 1, 2005, the member contribution rate increased by law to 9.4 percent. From 2005-06 through the 2015-16 school years, the ERO was funded in part by the 0.4 percent increase in member TRS contributions.

If a member did not receive a retirement annuity calculated using ERO, the 0.4 percent contributions was refunded without interest. ERO was allowed to automatically expire by the General Assembly on July 1, 2016. As a result, most active and inactive TRS members are eligible for a refund of the 0.4 percent ERO contributions they paid between 2005 and 2016. All eligible members were contacted about their refund options in late 2016.

## **Refunds of 1 percent retirement contributions**

Members whose membership began prior to July 1, 1998; who do not upgrade their pre-July 1998 service credit to the 2.2 benefit formula; and who retire with more than 34 years of service credit are entitled to a refund of 1 percent of creditable earnings after the later of June 30, 1998, or the attainment of 34 years of service credit. Sick leave is not considered when determining the attainment of 34 years of service credit.

The refund is paid at retirement. TRS automatically notifies the member of the refund amount after the member’s retirement claim is processed. These contributions are refundable because the member’s retirement benefit is not calculated under the 2.2 benefit formula. This refund is taxable for federal income tax purposes.

## **Refunds of survivor benefit contributions**

If members do not have a dependent beneficiary at retirement, they may apply for a refund of the 1 percent portion for survivor benefits.

The refundable amount is 1 percent of total gross creditable earnings for each year of teaching service after July 24, 1959.



## **Eligibility requirements**

At the time of applying for a retirement annuity or while receiving a retirement annuity, a member who contributed to TRS after July 24, 1959, may take a refund of survivor benefit contributions if he or she does not have a dependent beneficiary. 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 qualifying 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.

Children, unless named as a beneficiary on the MIBD form, are only eligible for benefits if they are the children of the surviving parent who will receive monthly benefits. In the case of a divorce, if the member names the new spouse or civil union partner and had children with the prior spouse or civil union partner, those children are not eligible for monthly survivor benefits.

A parent may be an eligible dependent beneficiary only if there is no other dependent beneficiary.

## **Effects of receiving a refund**

When a member receives a refund of his or her survivor benefit contributions, the member waives all rights to his or her beneficiary's receiving survivor benefits. However, the member's remaining accumulated retirement contributions, if any, still remain payable to the member's beneficiaries upon the member's death.

## **Application procedure**

When the member is applying for retirement or at anytime thereafter, the member may request a Refund of Survivor Benefit Contributions Application form from TRS. The form will not be sent until the processing of the member's retirement is complete. Completed forms must be returned to the TRS Springfield office. Within approximately six weeks after TRS receives the completed application, TRS will process the refund and will forward it to the Office of the Comptroller for payment.

## **Repayment of refund**

The survivor benefit refund may be repaid with interest if the member returns to teaching and earns at least one year of creditable service.



## Refunds or reduction of the 2.2 upgrade cost

Effective June 4, 1999, if a member retires with more than 34 years of service credit, he or she may receive a 25 percent reduction in upgrade costs for each year of creditable service beyond 34 years, up to a maximum of 100 percent. Partial years are prorated.

For every three years taught after July 1, 1998, the equivalent of one year of the 2.2 upgrade cost will be reduced or refunded.

### 25 percent-per-year refund

The following table shows the upgrade cost reduction feature for retirements that are effective on June 4, 1999, or later. Partial years will be prorated.

TRS will calculate the amount of any refund due and will credit the member with 6 percent interest.

<u>Years of Service</u>	<u>Percentage of 2.2 Upgrade Cost Refunded</u>
34	0%
35	25%
36	50%
37	75%
38	100%

## Refunds eligible for rollovers

All refund payments may be either made directly to the member or directly rolled over to an eligible retirement plan specified by the member. In a direct rollover, the eligible rollover distribution is paid directly from TRS to an individual retirement account (IRA) or another qualified retirement plan that accepts rollovers. By using a direct rollover, the member avoids a 20 percent withholding requirement if the payment is made directly to the member. Also, if the member chooses a direct rollover, the distribution is not taxed until it is withdrawn from the IRA or other qualified retirement plan.

## Taxability of refunds

Refunds are not subject to the Illinois Individual Income Tax. However, any portion of the refund attributable to contributions made by either the member or employer that were excluded from taxable income in the years the contributions were made is subject to federal income tax.

To help in tax planning, correct and complete applications received by the close of business on December 5 will be processed in the current tax year. Refund applications received after December 5 will be processed in the next tax year.

Refund recipients will be notified of the taxable portion of their refunds. TRS also will report the refund payment to the Internal Revenue Service on IRS Form 1099-R and will send the refund recipient a copy of this form in January or February in the year after the refund is taken.

Special tax consequences and penalties may apply to refund payments. Members should consult a professional tax consultant for details of the taxability of refunds. Additional information is also contained in **Internal Revenue Service Publication 575, Pension and Annuity Income**. To obtain this publication, visit the IRS website, [www.irs.gov](http://www.irs.gov) or call (800) 829-3676.



## Repayment of refunds

A member who accepts a refund terminates membership with TRS and cancels all service credit. A refund may be repaid with interest applied from the date of the refund to the date of the repayment.

Unless repayment is permitted under the Retirement Systems Reciprocal Act, service credit previously forfeited may not be used as a basis for payment of benefits until the member completes one year of teaching following the refund. Currently, the Retirement Systems Reciprocal Act requires at least two years of service credit with another system before service credit can be reinstated through repayment of a refund.

The refund repayment and teaching requirements must be completed prior to the member's retirement, death, or commencement of disability benefits.



