

Chapter 15: Refund of Retirement Contributions

If you cease teaching, you may receive a refund of your retirement contributions.

A refund of contributions should be carefully considered because it terminates your benefits and will be costly to repay if you return to teaching service.

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

If you receive a refund of retirement contributions, you are not entitled to any other refunds. The contributions for the Teachers' Retirement Insurance Program and the 1 percent survivor benefit contribution are not refundable.

Refund of retirement contributions

You may request a refund of your TRS contributions. The amount refunded is at the rate of 7 percent of creditable earnings prior to July 1, 1998, and 8 percent of creditable earnings thereafter without interest.

Eligibility

If you have terminated your teaching duties with a TRS employer, you may apply for a refund of the retirement contributions. If you are on sick leave, a sabbatical leave, or an unpaid leave of absence, or have accepted TRS employment service with a new employer, you are not considered to have terminated service and are not eligible for a refund.

No hardship loans

The law prohibits borrowing from your retirement contributions. A loan from TRS is prohibited even if you are in a state of financial distress.

Effect of receiving a refund

When you accept a refund, you forfeit all rights to TRS benefits. If you are considering a refund, you may want to contact us for an estimate of potential retirement and survivor benefits forfeited by accepting the

refund. If you choose not to receive a refund, your contributions will remain with us and will eventually provide a retirement benefit. If you have fewer than five years of service credit, you may receive a lump-sum retirement benefit at age 65 (see **"Single-sum Retirement Benefit" in Chapter 8**). If you have five or more years of service, you may receive a retirement annuity (see **Chapter 8: "Retirement Benefits"**).

Transfer of credit

We cannot transfer creditable service directly to a retirement system in another state. However, many retirement systems permit the purchase of out-of-system service. We will provide the other system with verification of Illinois teaching service if you

accept a refund and send us a written request. You may then make payment for service directly to the other system if this is required or request a rollover of refundable contributions.

Application procedure

A refund of your TRS contributions can be requested via email at members@trsil.org.

Please include: your full name, current address, contact phone number, the last four digits of your Social Security number, last employer(s) and the month and year you last worked in a TRS position (or expected if still working).

TRS will send you the application by regular mail. The application can

be returned any time after you have formally resigned from your TRS-covered position. We will process your refund and forward it to the Office of the Comptroller for payment when four months have passed since your final day of teaching.

Refunds eligible for rollovers

Payments of refunds for retirement or survivor benefit contributions may be either made directly to you or directly rolled over to an eligible retirement plan



that you specify. In a direct rollover, the eligible rollover distribution (the taxable portion) is paid directly from us to an individual retirement account (IRA) or another qualified retirement plan that accepts rollovers. By using a direct rollover, you avoid a 20 percent federal withholding deduction on direct payments. Also, if you choose 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 you or your employer that were excluded from taxable income in the years the contributions were made is subject to federal income tax.

For tax planning purposes, if your correct and complete application is received by the close of business on Dec. 5, it will be processed in the current tax year. If your application is received after Dec. 5, it will be processed in the next tax year.

We will notify you of the taxable portion of your refund. We also will report the refund payment to the Internal Revenue Service on IRS Form 1099-R and will send you a copy of this form in January in the year after the refund is taken.

Special tax consequences and penalties may apply to refund payments. You 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* online at http://www.irs.gov/file_source/pub/irs-pdf/p575.pdf.

Repayment of refunds

Refunds of retirement contributions may be repaid with interest from the date of the refund to the date of the repayment. However, service credit previously forfeited may not be used as a basis for payment of benefits prior to completion of one year of TRS-covered service following the refund.

If you have resumed service in a reciprocal system, the Illinois Retirement Systems Reciprocal Act requires you to complete two years of creditable service before service credit can be reinstated through repayment of a refund.

Assignment of contributions and loans

By law, you are protected from creditors placing a lien on, garnishing, or confiscating contributions you have made to TRS. This provision does not extend to federal tax levies and state of Illinois involuntary withholding. You may not assign your TRS contributions to a creditor or borrow against your account funds.