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Tax Deferring Optional Service Purchases Fact Sheet

Optional Service Purchases

General Assembly Retirement System (GARS) members may qualify to purchase additional service credit. The cost may include employee and employer contributions plus interest. GARS will require documentation to determine eligibility and provide estimated costs.

These types include:

- Active duty military
- Previously refunded GARS service
- Appointment to fill vacancy (from January 1 in year of appointment)
- End of term (for members leaving prior to the end of their term)
- Leadership service for members who have at least 24 months of paid leadership but less than 48 months
- Elected county, township, or municipal official if service could not be established in IMRF (Article 2)
- Transfer of public service
- Service as a judge
- Survivor annuity contribution for members who previously elected/and or were not required to not to contribute to the survivor's annuity provision

Rollovers

You may rollover tax-sheltered funds from a qualified retirement account or pension plan to purchase optional service credit. Members may also transfer money while still employed from their deferred compensation account (457) or tax-sheltered annuity (403(b)) to purchase service credit or repay a refund. Contact GARS to request required forms needed to process a rollover.

General Assembly Retirement System (GARS) members can elect to purchase optional service credit on a post-tax or pre-tax basis through payroll deduction or a rollover. The pre-tax method allows members to delay taxation until retirement.

The following examples illustrate how you can save money by tax-deferring payments for optional service credit purchases.

Example A:

Member A is purchasing optional service and agrees to the irrevocable pre-tax payroll deduction for 24 months. The total purchase cost, \$12,000, reduces taxable income by approximately \$500.00 per month, or \$6,000 per year.

Example B:

Member B is purchasing optional service and agrees to the irrevocable pre-tax payroll deduction plan for 48 months. The total purchase cost, \$36,000, reduces taxable income by approximately \$750.00 per month, or \$9,000 per year. After 30 months, Member B terminates employment and has 30 days to pay the remaining balance, \$13,500, with a post-tax lump-sum payment or accept a refund of the money already paid with taxes withheld and reported as income in that calendar year.

Payroll Deductions

Active GARS members have the option of purchasing service credit through payroll deductions on a pre- or post-tax basis. Members may also make payments directly to GARS on a post-tax basis. Optional service credit purchases made on a tax-deferred basis through payroll deduction or a rollover allows members to delay taxation until retirement.

The pre-tax withholding is made through an irrevocable payroll agreement with specific conditions for the total service credit amount. Once all payments have been received, the member's account is credited for the service purchased and reflected on future benefit statements. If this method is selected, the payroll withholding cannot be terminated or changed for any reason other than termination of employment, disability or death. If the member dies, partial service credit may be granted based on contributions and interest paid before the member's date of death.

Payment Interruptions

If a member becomes disabled, resigns, or is absent from payroll due to a leave of absence, the member will receive notification from GARS of the remaining balance due and has 30 days to complete one of the following options:

1. Make an after-tax lump sum payment for the remaining balance due.
2. Take a refund of the amount already paid, less applicable taxes, to be reported as income within that calendar year.

If the remaining balance isn't paid within 30 days, the entire amount withheld will be refunded and reported as income on that year's W-2. If a pre-tax payment becomes delinquent, the amount due must be paid within 120 days through an additional withholding agreement or the amount withheld will be refunded and reported as income on that year's W-2.