JRS
Judges' Retirement System
srs.illinois.gov

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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 judicial employment, death benefits paid to your beneficiaries, and survivor contribution refunds.

Early distribution penalty

If you terminate judicial employment and take a refund of your JRS contributions prior to age 55, you are subject to a 10% early distribution penalty, in addition to the mandatory 20% federal withholding tax, if you do not roll the refund into a qualified plan. This early distribution penalty does not apply if you receive a termination refund after age 55, or because of death or disability. Lump-sum death benefits 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, but are not permitted to roll after-tax contributions into this plan. Retirement plans, including qualified employer plans, are not required to accept rollovers, so you'll need to check with the plan administrator before requesting the rollover.

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 JRS benefits

Judges' Retirement System (JRS) is a qualified plan under Section 401(a) of the Internal Revenue Code. All JRS benefits are exempt from Illinois state income tax, but are subject to federal taxes. 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 single person with no deductions. 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. JRS calculates the portion of your benefit that is exempt from federal taxes using the IRS Simplified Method. For more details, go to ***irs.gov*** and refer to 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 JRS 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, refunds of survivor benefit contributions and termination refunds when you leave judicial service.

There are two ways to receive your lump-sum payment:

1. The payment can be rolled over to another qualified plan; or
2. The payment can be issued directly to you.

Rollovers to a qualified plan

You may have your lump-sum payment rolled over to a qualified plan to defer taxation and if applicable, to avoid the early distribution penalty.

Qualified plans include:

- 401(a), 401(k), and 403(b)
- *457(b) (*See Limitations on Rollovers*)
- IRAs (SIMPLE and traditional)

If you irrevocably elect for the lump-sum payment to be issued directly to you, you have 60 days to deposit that payment into a qualified plan. However, the mandatory 20% federal tax withholding cannot be reversed, so you are responsible for supplying the additional funds to the other qualified plan.

All questions regarding the tax treatment of your refunded contributions after transfer to your qualified plan account should be directed to the Internal Revenue Service or your financial advisor.