State Employees' Retirement System of Illinois

RETIREE & SURVIVOR BENEFITS

Your Rights & Responsibilities Handbook

Tier 1 for members hired before January 1, 2011

January 1, 2011
This handbook presents you with a general overview of SERS benefits for all retired state employees and their survivors who receive benefits. SERS offers a variety of benefits to members and survivors. These benefits, when combined with other income, are designed to provide members with financial security in their retirement years.

Read this booklet carefully and keep it for reference. Make sure your loved one is also familiar with this handbook and that he or she knows where your important papers are located.

This handbook is intended to serve as a supplement to your annual Benefit Statement, which is mailed to you in March. If you have questions about any of the information in this handbook, call us at any of the phone numbers listed on page 2.
ADDRESSES & PHONE NUMBERS

You may contact us Monday thru Friday from 8 a.m. until 4:30 p.m. E-mail us with any questions and/or comments at: ser@mail.state.il.us.

SPRINGFIELD
2101 S. Veterans Parkway,  P. O. Box 19255 Springfield, IL  62794-9255
General: 217-785-7444
Fax:  217-785-7019
Deaths: 217-785-7366
Pensions: 217-785-7343
Insurance: 217-785-7150

CHICAGO
Michael A. Bilandic Building
160 North LaSalle Street, Suite S200 Chicago, Illinois  60601
312-814-5853
312-814-5805

TDD/TTY
A Telecommunications Device for the Deaf (TDD) is available for members and annuitants who are hearing or speech-impaired. You may access this service at 217-785-7218.

INTERNET
SERS is on the Internet at www.state.il.us/srs. Our goal is to educate you about the retirement and death benefits provided by SERS. The website provides an overview of benefits, and gives you easy access to a variety of information: current retirement issues, how to contact us, answers to frequently asked questions, and education opportunities through our post-retirement workshops. Our website contains our annual financial report, a summary of the Illinois State Board of Investment annual financial report, and a link to other state and federal agencies.

ANNUITANT NEWSLETTER
All retirees, survivors, widows, and occupational death annuity recipients receive at least three editions of the newsletter, The Informer, each year. This newsletter keeps you informed of any issues or legislation affecting you.

ANNUITANT WORKSHOP
SERS offers the workshop, Myths & Realities of Retirement (MRR), to all State of Illinois retirees and their survivors. This free, one-day workshop covers a variety of important topics: SERS entitlements, estate planning, group insurance and financial planning. It also discusses other topics pertaining to retirees. To enroll in this informative workshop call 217-785-6979.

ANNUITANT ADDRESS
A permanent mailing address is maintained for each annuitant of SERS. This is necessary for the mailing of special notices, newsletters and Group Insurance Program information. It is important to maintain your permanent mailing address and report any changes. Annuitants can report a change of address by completing a Change of Address form from the SERS Springfield or Chicago offices, or by downloading it from our website at www.state.il.us/srs.

Your annual Benefit Statement is mailed to you every March. The statement includes information on group insurance and your beneficiaries. It also contains an identification card.

You may contact us Monday thru Friday from 8 a.m. until 4:30 p.m. E-mail us with any questions and/or comments at: ser@mail.state.il.us.

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It is important to maintain your permanent mailing address and report any changes. Annuitants can report a change of address by completing a Change of Address form from the SERS Springfield or Chicago offices, or by downloading it from our website at www.state.il.us/srs.
To protect your privacy, all information contained in your SERS record is considered confidential, and is provided only to you and to those you permit to have access.

Eligible retirees, survivors, widows, and occupational death benefit recipients can participate in the State of Illinois Group Insurance Program, as described in the Department of Central Management Services (CMS) group insurance handbook. Group insurance coverage includes health, prescriptions, dental and vision. Life insurance is also available to eligible members.

For more information, contact SERS’ Insurance Section, refer to your State of Illinois Member Handbook, or visit our website: www.state.il.us/srs.

MEDICARE
Medicare is a federally funded health program for individuals age 65 and older and certain disabled individuals under age 65. Medicare is made up of Part A (hospitalization), Part B (other medical services) and Part D (Prescription Drugs).

When retirees, survivors, disabled members and their covered dependents become eligible for Medicare, the state health insurance becomes the secondary payer. For more information about Medicare, contact the Social Security Administration.

Contact the SERS Insurance Section for questions about Medicare coordination with the State of Illinois Group Insurance Program.
RETIREMENT ANNUITY (PENSION)

All SERS records are maintained by your Social Security number. In order to receive any benefit, you must apply for it. All benefit claims should be made to the SERS Claims Division. After you begin receiving benefits, you should notify SERS if you change your name or address.

FIRST RETIREMENT ANNUITY PAYMENT
SERS processes your first annuity payment after we receive your pension application and other required information. The normal processing time is 36 days from the date you leave service.

The Comptroller’s office will mail the first annuity payment directly to your home. You will also receive a Notice of Pension Approval, which contains information about your retirement annuity; a tax brochure, which provides an overview of your annuity taxes; and a payment stub with information about your payments. (See page 23 for a sample of this stub.)

FUTURE RETIREMENT ANNUITY PAYMENTS
Future annuity payments are mailed on the 19th of each month, unless the 19th is on a weekend or holiday, when they are mailed on the last working day before the 19th. If your payment is mailed directly to your home, allow ten working days for delivery.

If you have not received your payment after the ten working days, call SERS. Failure to advise SERS of an address change may result in a delayed payment.

DIRECT DEPOSIT (Electronic Funds Transfer)
When you apply for a SERS benefit, you will receive a Depository Agreement form along with an explanation of this program. We encourage you to have your monthly retirement annuity directly deposited into your bank account. Complete and return this form with your application for benefits. This form can also be downloaded from our website (www.state.il.us/srs).

When you choose Direct Deposit, your first two payments are mailed to your home. All future payments will be deposited into your bank account on the 19th of each month. You will not receive a payment stub for each direct deposit payment. Instead, the Comptroller’s office will periodically issue an earnings statement with information about your annuity payment. (See page 26 for a sample earnings statement.)

TAXATION OF YOUR RETIREMENT ANNUITY
Illinois law exempts all SERS benefits from state income tax. However, benefits are subject to federal income tax. If your federal tax withholding information is not on file with SERS, taxes are withheld using the rate for a married person with three exemptions. (See the sample W-4P form on page 24.)

Each year, the Comptroller’s office is required to send you a 1099-R form showing the total annuity amount you received during the past year, as well as any taxes withheld. (See the sample 1099-R on page 25.)

SERS is a defined benefit plan. Both you and the State make contributions to us during your employment to cover the cost of your retirement benefit. Your benefits are based on the laws in effect on your last day of employment.
TAXATION OF REFUND ASSOCIATED WITH RETIREMENT
Widow/survivor contribution refunds and alternative retirement formula contribution refunds are subject to federal income tax withholding. You can rollover your lump sum payment and defer tax on it until a later date. (Refer to the Tax brochure for more information.)

If you elect to rollover all or part of your widow/survivor refund, or alternative retirement formula refund, you will receive a 1099-R form by January 31 of the following year from the Comptroller’s office which will reflect the amount rolled-over.

INCREASES FOR RETIREES
SERS retirees receive a 3% increase to their pensions on January 1 following their first full year of retirement, or age 60, whichever is later. Future increases of 3% of your current pension will also be made each January 1 thereafter. Future increases are not limited by the 75% maximum.

If you retired using the Rule of 85, you are eligible for your first increase on January 1 following your first full year of retirement, even if you are not age 60. If you retired under the alternative formula, you will receive a 3% increase to your pension on January 1 following your first full year of retirement or age 55, whichever is later. Future increases are not limited by the 80% maximum.

RETURNING TO EMPLOYMENT AFTER RETIRING
If you return to state employment on a contractual basis (the 2002-2003 ERI participants may not work contractually), or for the private sector, your SERS benefit is not affected. However, if you return to state employment on a non-permanent or permanent basis after retirement, you should notify the SERS Claims Division immediately.

If you receive a pension from more than one Illinois public retirement system which participates in the Retirement Systems’ Reciprocal Act, you must notify each retirement system. Each reciprocal retirement system has specific rules to determine if retirees are eligible to receive pension benefits during reemployment.

NON-PERMANENT REEMPLOYMENT
If your employment with the state will last for 75 or less working days during a calendar year (any part of a day is counted as a full day), you will continue to receive your pension payment while employed. During your employment, you make no contributions to SERS, but you must contribute to Social Security. Certification must be submitted to SERS verifying this employment.

If you work more than 75 working days, your pension benefit will end on the 76th day, and you will resume contributing to SERS.
PERMANENT REEMPLOYMENT
If you are reemployed by the state on a permanent basis, you won’t be eligible for pension benefits while working. You will make contributions to both SERS and Social Security during your employment and earn additional service credit.

After you again retire from state employment, you must reapply for a pension. Your new pension amount will be the benefit earned before reemployment, plus the pension amount earned during your reemployment.

If you reenter state service within three years after retiring, you may qualify to have your new retirement benefit computed as though you never retired. To qualify, you must repay all of the pension benefits you received, plus interest.

The repayment may be made in a lump sum, by installments paid within five years after your reemployment, or before your next retirement date, whichever is first. If you choose not to complete installment payments before retirement or the end of the five-year period, your installment payments will be refunded and your pension will not be recomputed.

3. SURVIVOR, WIDOW, & OCCUPATIONAL DEATH BENEFITS

Beginning June 1, 2011, Illinois recognizes legal civil unions between two people. They are entitled to the same SERS benefits as spouses if they have been legal partners for one year. Throughout this handbook, the terms ‘civil union partner’ and ‘spouse’ are used interchangeably.

SERS must always be notified in the event of your death. We can’t process any payments to your beneficiary until we receive a certified copy of your death certificate.
SURVIVOR, WIDOW, OCCUPATIONAL DEATH ANNUITY PAYMENTS

In order to receive any benefit, you must apply for it. All benefit claims should be made to the Claims Division. After you begin receiving benefits, you should notify SERS if you change your name or address.

All SERS records are maintained according to your Social Security number.

FIRST SURVIVOR, WIDOW, OCCUPATIONAL DEATH ANNUITY PAYMENT

SERS will process your first annuity payment after we receive your application and other required information. The normal processing time is 30 days after all necessary information is received.

The Comptroller’s office will mail the first annuity payment directly to your home. You will also receive a Notice of Benefit Approval, which contains information about your annuity; a tax brochure, which provides an overview of your annuity taxes; and a payment stub with information about your payment. (See page 23 for a sample of this stub.)

FUTURE SURVIVOR, WIDOW, OCCUPATIONAL DEATH ANNUITY PAYMENTS

Future annuity payments are mailed on the 19th of each month, unless the 19th is on a weekend or holiday, when they are mailed on the last working day before the 19th. If your payment is mailed directly to your home, allow ten working days for delivery.

If you have not received your payment after ten working days, call SERS. Failure to advise SERS of an address change may result in a delayed payment.

SOCIAL SECURITY OFFSET

If an employee contributed to both SERS and Social Security, an offset of 50% of the survivor’s Social Security benefit is usually applied to the SERS widow’s or survivor’s benefit when the survivor reaches age 60.

If the survivor is over age 60 when the benefit begins, the offset starts with the first payment. These offsets do not reduce the SERS widows or survivors benefit by more than 50%.

This offset will not occur if the SERS retiree chose to participate in P.A. 095-1043 when application for the retirement annuity was made or if the SERS member was an active state employee on the date of death.

DIRECT DEPOSIT

(Electronic Funds Transfer)

When you apply for a SERS benefit, you will receive a Depository Agreement form along with an explanation of this program. We encourage you to have your monthly retirement annuity directly deposited in your bank account. Complete and return this form with your application for benefits.

When you choose direct deposit, your first two payments are mailed to your home. All future payments will be deposited into your bank account on the 19th of each month.

You will not receive a payment stub for each direct deposit payment. Instead, the Comptroller’s office will periodically issue an earnings statement with information about your annuity payment. (See page 26 for a sample earnings statement.)

MARRIAGE

If a child under age 18, or age 22 if full-time student, marries, their survivor, widow, or occupational death benefit will be terminated.
TAXATION OF THE SURVIVOR, WIDOW, OCCUPATIONAL DEATH ANNUITY PAYMENTS

All SERS benefits are exempt from state income tax under Illinois law. The occupational death benefit annuity is not subject to federal tax, but the survivor and widow annuities are.

If your federal tax withholding information is not on file with SERS, taxes are withheld using the rate for a married person with three exemptions. (See the sample W-4P on page 24.)

Each year, the Comptroller’s office is required to send you a 1099-R form showing the total annuity amount you received for the past year, as well as any taxes withheld. Use the 1099-R when preparing your income tax return. (See the sample 1099-R on page 25.)

INCREASES FOR SURVIVOR, WIDOW, OCCUPATIONAL DEATH BENEFIT RECIPIENTS

If you receive a monthly annuity from SERS due to the death of an active, inactive, or retired state employee, you will receive a 3% increase on January 1 following a full year of payments. Future increases of 3% will be made each January 1 thereafter.

SURVIVOR EMPLOYMENT

The only employment restriction for individuals receiving a survivor, widow, or occupational death benefit from SERS is for disabled, unmarried children over age 18. This benefit is payable if the disabled child is not gainfully employed and earning more than $2490 per quarter.

LUMP SUM DEATH BENEFITS

BEFORE RETIREMENT

WITH SURVIVOR ANNUITY

If an active employee dies and a monthly survivor annuity is payable, the nominated beneficiary on file with SERS receives a lump sum death benefit. The lump sum death benefit consists of the member’s retirement contributions and interest.

The named beneficiary may choose to rollover the payment and defer tax on it until a later date. If all or part of a lump sum payment is rolled-over, you will receive a 1099-R form by January 31, which reflects the amount rolled-over. (Refer to the Tax brochure for more information.)

The Comptroller’s office is required to send you an IRS form 1099-R by January 31 of the year following receipt of this payment. The 1099-R shows the taxable portion of the lump sum benefit, the portion attributable to capital gains and ordinary income, and any tax withheld. (See the sample form 1099-R on page 25.)

WITHOUT SURVIVOR ANNUITY

If an active employee dies without a payable monthly survivor annuity, the nominated beneficiary on file with SERS receives a lump
AFTER RETIREMENT

If a retired SERS member dies with no payable survivor annuity, the nominated beneficiary(ies) receive any contributions and interest attributable to capital gains and ordinary income, and any taxes withheld. Refer to the Tax brochure for more information. (See the sample form 1099-R on page 25.)

The Comptroller's office is required to send you a 1099-R by January 31 of the year following the receipt of this payment. The 1099-R shows the taxable portion of the lump sum benefit received, the portion attributable to capital gains and ordinary income, and any taxes withheld. (See the sample form 1099-R on page 25.)

If a retired SERS member dies with a payable survivor annuity, then no lump sum death benefit is issued.

The payment consists of all the member's contributions plus interest, and one month's salary for each year of service, up to a maximum of six months' salary. The named beneficiary may choose to rollover the payment and defer tax on it until a later date.
PLAN DOCUMENT
This handbook attempts to describe SERS benefits in nontechnical language. The official document describing SERS benefits is the Illinois Compiled Statutes, 40 ILCS 5/14, which legally governs the operation of the plan. If there is any variance between this handbook and the plan document, the plan document will rule.

BOARD OF TRUSTEES
The Board of Trustees is responsible for the operation of SERS. Some trustees serve on the Board because of their position in State government. Others are appointed by the Governor because of their particular expertise. Still others are elected by you, our members.

The Board consists of the State Comptroller who acts as Chairman, five trustees who are appointed by the Governor, four elected SERS members and two elected retirees.

ADMINISTRATION
SERS is administered by the board-appointed Executive Secretary.

SERS FUNDING
Contributions are made by the State and its members. All contributions not required for current operations are invested by the Illinois State Board of Investment for the exclusive benefit of our members and their beneficiaries.

To safeguard the proper operation and funding of this multi-billion dollar pension fund, operations are monitored both internally and externally. SERS’ financial and administrative activities are subject to an annual audit by an independent accounting firm under the direction of the state’s Auditor General.

Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

EMPLOYER IDENTIFICATION NUMBER
The Employer Identification Number of SERS is 37-1026227.

LEGAL PROCESS
Legal process may be served on SERS’ Executive Secretary.

EMPLOYMENT RIGHTS
Membership in SERS does not guarantee a right or claim to any benefit not accrued under the terms of the plan document.
**Glossary of Terms**

**Automatic Increase in Retirement Annuity:** A 3% increase of a member's retirement annuity each January 1 following the first full year of retirement, or age 60, whichever is later. Under the Rule of 85, the increase is paid on January 1 following the first full year of retirement, regardless of age.

For alternative formula members, the 3% increase is paid on January 1 following the first full year of retirement or age 55, whichever is later.

For survivor, widow or occupational death annuity, a 3% increase is paid on January 1 following one full year of benefits.

**Beneficiary for Lump Sum Death Benefit:** The beneficiary chosen by the member to receive SERS benefits. A beneficiary form is kept on file with SERS. This should not be confused with the Group Life Insurance beneficiary, or the Deferred Compensation beneficiary.

**Benefit Statement:** The annual benefit statement is mailed in March to SERS annuitants. This statement summarizes your account, benefits and lists your beneficiaries.

**COLA (Cost-of-Living Adjustment):** An automatic, annual 3% compounded increase to certain benefits.

**Credited Service:** The total service certified to a member's record.

**Defined Benefit Plan:** Provides a predetermined benefit amount using a formula combining credited service and salary.

**Direct Deposit:** By choosing Direct Deposit, your benefit is electronically deposited into your bank account.

**Final Average Compensation (FAC):** For Retirement and Survivor Benefits – Final Average Compensation is the 48 highest consecutive months of service within the last 120 months of service. For alternative formula employees, FAC is the final rate of pay or final 48 months, whichever is higher.

For Death and Disability Benefits – Final Average Compensation is the rate of pay at the date of death or disability, or the 48 highest consecutive months of service within the last 120 months, whichever is greater.

**Level Income Option:** An option for members who pay into Social Security as a state employee. Their SERS benefit is increased for the period before receiving Social Security benefits. Their SERS benefit is reduced when Social Security benefits begin. This option provides an income leveling effect throughout an individual’s retirement years.

**Informer:** The SERS newsletter for retirees and survivors that contains timely and pertinent information. This newsletter is usually mailed in January, March and September.
SAMPLE ANNUITY PAY STUB

**Nominated Beneficiary for a Lump Sum Death Benefit:** The beneficiary chosen by the member to receive SERS benefits. A beneficiary form is kept on file with SERS. This should not be confused with the Group Life Insurance beneficiary, or the Deferred Compensation beneficiary.

**Pension:** Retirement annuity paid for a member’s lifetime.

**Qualified Plan:** A retirement plan qualified under the Internal Revenue Code allowing SERS and its members certain tax advantages.

**Retirement Annuity (Pension):** Monthly annuity paid for life.

**Retirement Systems’ Reciprocal Act:** Provides continuity of pension credits for individuals who have participated in more than one Illinois public employee retirement system. There are currently thirteen retirement systems participating in the Retirement Systems’ Reciprocal Act. They are listed on the back of your Benefit Statement.

**Rollover:** Postponing taxation of distributions by “rolling-over” the taxable portion of the payment to another qualified plan, or to an Individual Retirement Account (IRA).

**Survivor Annuity Beneficiary:** A beneficiary (spouse, child, dependent parent) designated by statute to receive a monthly annuity upon the death of the member.

**Widow/Survivor Refund:** If a member has no eligible survivor beneficiary, a refund of the widow/survivor contribution is made at retirement.

**A.** Indicates the month paid.

**B.** The gross amount paid during the current year. Year-to-date (YTD) is from January 1 through December 31.

**C.** Year-to-date federal tax withheld.

**D.** Year-to-date non-taxable portion of the annuity. If the cost of annuity has been recovered, this section blank.

**E.** Year-to-date state tax withheld. SERS benefits are not subject to Illinois income taxes, but annuitants can request state tax withholding.

**F.** The gross amount of this annuity payment.

**G.** Health and life insurance premium paid by the state.

**H.** Deductions from this payment are listed here. They include: state health insurance premiums for dependent coverage; optional life insurance premiums; spouse life & child life insurance premiums; dues for ISEA, RSEA, RSPA, or AFSCME; other insurance carrier premiums; and credit union deductions.

**I.** Non-taxable portion of this payment. This is blank if the cost of annuity has been recovered.

**J.** The net amount of this payment.

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**JOHN Q. PUBLIC**

**NOMINATED BENEFICIARY FOR A LUMP SUM DEATH BENEFIT:**

The beneficiary chosen by the member to receive SERS benefits. A beneficiary form is kept on file with SERS. This should not be confused with the Group Life Insurance beneficiary, or the Deferred Compensation beneficiary.

**PENSION:**

Retirement annuity paid for a member’s lifetime.

**QUALIFIED PLAN:**

A retirement plan qualified under the Internal Revenue Code allowing SERS and its members certain tax advantages.

**RETIREMENT ANNUITY (PENSION):**

Monthly annuity paid for life.

**RETIREMENT SYSTEMS’ RECIPROCAL ACT:**

Provides continuity of pension credits for individuals who have participated in more than one Illinois public employee retirement system. There are currently thirteen retirement systems participating in the Retirement Systems’ Reciprocal Act. They are listed on the back of your Benefit Statement.

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**SURVIVOR ANNUITY BENEFICIARY:**

A beneficiary (spouse, child, dependent parent) designated by statute to receive a monthly annuity upon the death of the member.

**WIDOW/SURVIVOR REFUND:**

If a member has no eligible survivor beneficiary, a refund of the widow/survivor contribution is made at retirement.
A. Gross amount received.
B. Member’s taxable portion.
C. Amount qualified for capital gain treatment. This only pertains to a lump sum death benefit.
D. Federal tax withheld at recipient’s request or as required by law.
E. Non-taxable portion of gross distribution.
F. Distribution Code listed on the 1099-R instruction sheet sent with this form.
G. Percentage of the total distribution received.
H. Retiree’s total cost of annuity. (This will appear on the first 1099-R only.)
I. State tax withheld at recipient’s request.

**SAMPLE FORM 1099-R**

**SAMPLE FORM W-4P**

A. Exemption from withholding. Check this box if you do not want any tax withheld from your payment. You do not have to give a reason for this.

B. Withholding based on specified withholding allowances. For periodic payments, withholding is automatically based on a rate for a married person claiming three allowances. If you want withholding to be based on a specified number of allowances, write the number on this line and check the appropriate filing status box.

C. Additional amount, if any, you want deducted from each payment. If you are not having enough tax withheld, you may ask the payer to withhold more tax by entering an additional amount on line 3.

You may need to have additional tax withheld if you have other income such as interest, dividends, capital gains, rents, alimony, taxable Social Security benefits, etc.

Estimate the amount you want withheld. Divide that amount by the number of payments you will receive this year. Enter the additional amount you want withheld from each payment on line 3 of Form W-4P.

D. Federal income tax withheld.

E. State income tax withheld.

F. Additional amount, if any, you want deducted from each periodic payment. If you are not having enough tax withheld, you may ask the payer to withhold more tax by entering an additional amount on line 3.

G. Percentage of the total distribution received.

H. Retiree’s total cost of annuity. (This will appear on the first 1099-R only.)

I. State tax withheld at recipient’s request.
**SAMPLE DIRECT DEPOSIT EARNINGS STATEMENT**

A. Month of payment.
B. Gross amount received.
C. Monthly deductions and State-paid insurance.
D. Net amount received.

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**ADDITIONAL INFORMATION MAY BE OBTAINED BY CONTACTING**

SPRINGFIELD:
2101 S Veterans
SPRINGFIELD, IL 62704-9599

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**SRS**