



Illinois Department of Financial and Professional Regulation

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Legislative Update Police Pension Funds

U p d a t e U p d a t e U p d a t e **Public Act 095-0812** U p d a t e U p d a t e U p d a t e
House Bill 4603 signed into Law August 13, 2008
Law became effective August 13, 2008

Additions to Illinois Law:

Transfer of Additional Creditable Service from Article 7, IMRF, to Article 3 Police Pension Fund Not Credited Under Transfers Made In Accordance with P.A. 094-0356
Transfer of Additional Creditable Service from Article 3 Police Pension Fund to Article 7, IMRF, Not Credited Under Transfers Made In Accordance with P.A. 094-0356
40 ILCS 5/3 -110. (e)(4) and 40 ILCS 5/7 - 139. (a) 10.

Transfer of Creditable Service from Article 7, IMRF, to Article 3 Police Pension Fund For The Amount of the Service Credit Reduction in a Transfer Under the Provisions of Public Act 94-356

(40 ILCS 5/3-110.(e)(4))

(4) Until January 1, 2010, a police officer who transferred service from the Fund established under Article 7 of this Code under the provisions of Public Act 94-356 may establish additional credit, but only for the amount of the service credit reduction in that transfer, as calculated under paragraph (3) of this subsection (e). This credit may be established upon payment by the police officer of an amount to be determined by the board, equal to (1) the amount that would have been contributed as employee and employer contributions had all of the service been as an employee under this Article, plus interest thereon at the rate of 6% per year, compounded annually from the date of service to the date of transfer, less (2) the total amount transferred from the Article 7 Fund, plus (3) interest on the difference at the rate of 6% per year, compounded annually, from the date of the transfer to the date of payment. The additional service credit is allowed under this amendatory Act of the 95th General Assembly notwithstanding the provisions of Article 7 terminating all transferred credits on the date of transfer.

(40 ILCS 5/7-139.11)

Until January 1, 2010, members who transferred service from an Article 3 system under the provisions of Public Act 94-356 may establish additional credit in this Fund, but only up to the amount of the service credit reduction in that transfer, as calculated under the actuarial assumptions. This credit may be established upon payment by the member of an amount to be determined by the board, equal to (1) the amount that would have been contributed as employee and employer contributions had all the service been as an employee under this Article, plus interest thereon compounded annually from the date of service to the date of transfer, less (2) the total amount transferred from the Article 3 system, plus (3) interest on the difference at the effective rate for each year, compounded annually, from the date of the transfer to the date of payment. The additional service credit is allowed under this amendatory Act of the 95th General Assembly notwithstanding the provisions of Article 3 terminating all transferred credits on the date of transfer.

For information on establishing additional service credit under this new section in IMRF, Article 7, please contact IMRF at 1-800-ASK-IMRF (1-800-275-4673) or visit their website at www.imrf.org.

Synopsis:

In order to establish additional creditable service time under this Public Act 95-812 (HB 4603) the individual must be an active police officer per 40 ILCS 5/1-103.1 Application of amendments., which states :

‘Amendments to this Code which have been or may be enacted shall be applicable only to persons who, on or after the effective date thereof, are in service as an employee under the retirement system or pension fund covered by the Article which is amended, unless the amendatory Act specifies otherwise.’

Public Act 95-812, 40 ILCS 5/3 -110. (e)(4) also requires a police officer to have transferred service credits from Article 7 to Article 3 in accordance with Public Act 94-356, effective 7/29/2005, which included Section 3-110. (e)(1) through (e)(3), in order to transfer or establish service credit under the new Section 3-110. (e)(4).

The police officer may establish additional creditable service equal to the amount of time lost due to the reduction of creditable service time during the transfer in accordance with the previous Public Act 94-356. The police officer has until January 1, 2010, to establish this additional creditable service time.

Article 7, IMRF, is not required to pay any additional amount to the Article 3 Police Pension Fund under this new statutory language. The additional cost is to be paid in full by the police officer.

In order to compute the amount the police officer is required to pay the Article 3 Police Pension Fund the board needs to determine the amount of employer and employee contributions that would have been contributed had all of the service been as an employee under the Article 3 Police Pension Fund. The board also needs to know the amount that was transferred to the fund from IMRF in accordance with P.A. 94-356 (40 ILCS 5/7-139.11). The board will need to make additional interest and arithmetic calculations.

In order to determine the amount of the employer and employee contributions that would have been contributed and applicable to an officer in the Article 3 police pension fund, the board needs to obtain: 1) the dates of service for the creditable service time transferred; 2) the Article 3 police pension fund's fiscal year end; 3) the individual's annual salary for each fiscal year for which creditable service time was transferred; and 4) the Article 3 police pension fund's total normal cost as a percentage of payroll from the fund's actuarial valuation or tax levy report for each fiscal year for which creditable service time was transferred. The police pension fund will also need to know the date of transfer used in the original transfer under P.A. 94-356.

For those Article 3 police pension funds that obtain salary information on a monthly basis, the calculations explained later in this document should be computed on a monthly basis instead of a yearly basis for a more accurate calculation of the amounts needed to determine the transfer cost to the police officer.

The total normal cost percentage can be found in the actuarial valuation report, or tax levy report, provided by the actuary. On the Department of Insurance or Department of Financial and Professional Regulation tax levy report, this percentage can be found on the second page, third line, which reads, "Percent of Total Normal Costs to Total Annual Salaries of \$ ***.** is **.**%." This percentage includes the police officer's contribution percentage to the Article 3 police pension fund. The officer's salary history for the creditable service time transferred from IMRF needs to be obtained as of the fiscal year end dates of the Article 3 police pension fund. For the creditable service time transferred, "the contributions that would have been paid" plus interest should equal the sum of each year's total normal cost plus interest applicable to the officer. Each year's total normal cost plus interest should equal: 1) the total normal cost percentage for a fiscal year for which creditable service time was transferred multiplied by 2) the salary received at the end of the fiscal year plus 3) interest accumulated from the end of the fiscal year through the date of original transfer under P.A. 94-356.

The police pension fund is to subtract from "the contributions that would have been paid" plus interest, as described in the previous paragraph, the amount transferred to the Article 3 police pension fund from IMRF under P.A. 94-356. The difference accumulates interest at 6% per year, compounded annually from the original date of transfer to the date of payment. The resulting amount is the amount the officer is required to pay the Article 3 police pension fund in order to complete the transfer and credit the additional creditable service time previously lost.

The following example should more clearly illustrate the computations:

Example:

Information Needed:

- 1) Dates for which officer transferred creditable service time under IMRF to the Article 3 police pension fund: June 30, 1990 through September 30, 1995
- 2) Fiscal year end of Article 3 police pension fund. (See Table 1 below).
- 3) The officer's salary/pay as an IMRF employee at the end of each of the Article 3 police pension fund's fiscal years for which creditable service time was transferred. (See Table 1 below). These amounts may need to be obtained from either the former IMRF employee or IMRF.

4) The total normal cost percentage for the Article 3 police pension fund corresponding to the fiscal year for which creditable service time was transferred. (See Table 1 below).

5) Original Date of Transfer: 12/31/2005.

6) Date of Payment to transfer or establish additional service credits: 12/31/2008.

TABLE 1: IMRF Salary and Total Normal Cost Percentages

| <u>Police Pension Fiscal Year End (FYE)</u> | <u>Salary as an IMRF Employee (through FYE)</u> | <u>Total Normal Cost Percentage (Police Fund) (as of FYE)</u> |
|---|---|---|
| April 30, 1991 | \$ 20,800.00 | 23.72% |
| April 30, 1992 | \$ 26,600.00 | 23.57% |
| April 30, 1993 | \$ 27,400.00 | 23.81% |
| April 30, 1994 | \$ 28,200.00 | 23.94% |
| April 30, 1995 | \$ 29,000.00 | 24.27% |
| Sept. 30, 1995 | \$ 15,500.00 | 24.13% |

Determination of the amount the officer will need to pay to the Article 3 police pension fund:

1) Determine the period of time between each fiscal year end for which creditable service time was transferred and the original date of transfer. These periods will be used to determine the interest attributed to the contributions that would have been paid into the Article 3 police pension fund. Assumption: Date of Transfer(original) to be 12/31/2005. (See Table 2 below).

TABLE 2: Interest Period

| <u>Police Pension Fiscal Year End (FYE)</u> | <u>Original Date of Transfer</u> | <u>Interest Period</u> |
|---|--------------------------------------|---|
| April 30, 1991 | Dec. 31, 2005 | 14.6667 years (14 yrs, 8 mos. or 14 8/12 yrs) |
| April 30, 1992 | Dec. 31, 2005 | 13.6667 years |
| April 30, 1993 | Dec. 31, 2005 | 12.6667 years |
| April 30, 1994 | Dec. 31, 2005 | 11.6667 years |
| April 30, 1995 | Dec. 31, 2005 | 10.6667 years |
| Sept. 30, 1995 | Dec. 31, 2005 | 10.25 years (10 yrs, 3 mos. or 10 3/12 yrs) |

2) Determine the employee and employer contributions that would have been contributed in a particular year by multiplying the salary paid in that year by the total normal cost percentage for the corresponding year. (See Table 3 below).

TABLE 3: Total Normal Cost Calculation and Contribution Determination

| <u>Police Pension Fiscal Year End (FYE)</u> | <u>Salary as IMRF Employee (through FYE)</u> | | <u>Total Normal Cost Percentage (Police Fund) (as of FYE)</u> | | <u>Employee and Employer Contribs. (would have been paid)</u> |
|---|--|---|---|---|---|
| April 30, 1991 | \$ 20,800.00 | X | .2372 | = | \$ 4,933.76 |
| April 30, 1992 | \$ 26,600.00 | X | .2357 | = | \$ 6,269.62 |
| April 30, 1993 | \$ 27,400.00 | X | .2381 | = | \$ 6,523.94 |
| April 30, 1994 | \$ 28,200.00 | X | .2394 | = | \$ 6,751.08 |
| April 30, 1995 | \$ 29,000.00 | X | .2427 | = | \$ 7,038.30 |
| Sept. 30, 1995 | \$ 15,500.00 | X | .2413 | = | \$ 3,740.15 |

3) Determine the interest on the contribution amounts determined in Table 3. (See Table 4 below).

TABLE 4: Total Contribution Amount Plus Interest Calculation and Amount

| <u>Police Pension Fiscal Year End (FYE)</u> | <u>Employee and Employer Contribs. (Contribution Amount)</u> | <u>Interest Period</u> | <u>Contribution Plus Interest = [(Contribution Amount) X {(1+.06)^(Interest Period)}]</u> |
|---|--|------------------------|---|
| April 30, 1991 | \$ 4,933.76 | 14.6667 | \$ 11,596.62 |
| April 30, 1992 | \$ 6,269.62 | 13.6667 | \$ 13,902.37 |
| April 30, 1993 | \$ 6,523.94 | 12.6667 | \$ 13,647.46 |
| April 30, 1994 | \$ 6,751.08 | 11.6667 | \$ 13,323.22 |
| April 30, 1995 | \$ 7,038.30 | 10.6667 | \$ 13,103.82 |
| Sept. 30, 1995 | \$ 3,740.15 | 10.25 | \$ 6,796.33 |

Total Contributions that would have been made to the Article 3 police pension fund plus interest at the original date of transfer: **\$ 72,369.82**

4) Determine the amount by which the contributions that would have been paid into the Article 3 police pension fund plus interest at the original date of transfer exceeds the amount transferred from IMRF. This difference plus interest from the original date of transfer to the date of payment under P.A. 95-812 is the amount the officer would need to pay the Article 3 police pension fund for the transfer or establishment of the creditable service time previously lost. (See Table 5 below).

Assumed Date of Payment is 12/31/2008.

TABLE 5: Amount Police Officer Is Required to Pay the Police Pension Fund

| | |
|---|-----------------------|
| Amount that would have been contributed as employee and employer contributions plus interest through the date of original transfer: | \$ 72,369.82 |
| less Amount transferred from IMRF on the original date of transfer: | - <u>\$ 20,000.00</u> |
| The Difference: | \$ 52,369.82 |
| plus Interest on the Difference from the date of transfer through the date of payment: | + <u>\$ 10,003.47</u> |

Date of Transfer: 12/31/2005
Date of Payment: 12/31/2008
Interest Period between A) and B): 3 years

$$\begin{aligned} \text{Interest} &= [\text{Difference} \times \{(1+.06)^{(\text{Interest Period})}\}] - \text{Difference} \\ &= [\$52,369.82 \times \{(1.06)^{(3)}\}] - \$52,369.82 \\ &= \$62,373.29 - \$52,369.82 \\ &= \$10,003.47 \end{aligned}$$

EQUALS Amount Police Officer Is Required to Pay the Police Pension Fund: \$ 62,373.29