



# Illinois Department of Financial and Professional Regulation

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## Legislative Update Police Pension Funds

Update Update Update **Public Act 094-0356** Update Update Update

House Bill 373 signed into Law August 3, 2005

Law becomes effective August 3, 2005

### Additions to Illinois Law:

Transfer of Creditable Service from Article 3 Police Pension Fund to Article 7, IMRF	40 ILCS 5/3 - 110.8 (new), and 40 ILCS 5/7 - 139. Para.10.(new)
Transfer of Creditable Service from IMRF, Article 7, to Article 3 Police Pension Fund	40 ILCS 5/3 - 110.(e) (new), and 40 ILCS 5/7 - 139.11. (new)

(40 ILCS 5/3-110) (from Ch. 108 1/2, par. 3-110)

Sec. 3-110. Creditable service.

...

(e) (1) Creditable service also includes periods of service originally established in the Fund established under Article 7 of this Code for which the contributions have been transferred under Section 7-139.11.

(2) If the board of the pension fund to which creditable service and related contributions are transferred under Section 7-139.11 determines that the amount transferred is less than the true cost to the pension fund of allowing that creditable service to be established, then the amount of creditable service the police officer may establish under this subsection (e) shall be reduced by an amount equal to the difference, as determined by the board in accordance with the rules and procedures adopted under paragraph (3) of this subsection.

(3) The Public Pension Division of the Department of Financial and Professional Regulation shall establish by rule the manner of making the calculation required under paragraph (2) of this subsection, taking into account the appropriate actuarial assumptions; the police officer's service, age, and salary history; the level of funding of the pension fund to which the credits are being transferred; and any other factors that the Division determines to be relevant. The rules may require that all calculations made under paragraph (2) be reported to the Division by the board performing the calculation, together with documentation of the creditable service to be transferred, the amounts of contributions and interest to be transferred, the manner in which the calculation was performed, the numbers relied upon in making the calculation, the results of the calculation, and any other information the Division may deem useful.

(Source: P.A. 90-460, eff. 8-17-97; 91-887, eff. 7-6-00; 91-939, eff. 2-1-01.)

## Pension Division Advisory Services

(40 ILCS 5/3-110.8 new)

Sec. 3-110.8. Transfer to IMRF.

(a) Until January 1, 2006, any active member of the Illinois Municipal Retirement Fund who has less than 8 years of creditable service in a police pension fund under this Article, may apply for transfer of his creditable service accumulated in that fund to the Illinois Municipal Retirement Fund. The creditable service shall be transferred upon payment by the police pension fund to the Illinois Municipal Retirement Fund of an amount equal to:

(1) the amounts accumulated to the credit of the applicant on the books of the fund on the date of transfer;

and

(2) employer contributions in an amount equal to the amount determined under subparagraph (1); and

(3) any interest paid by the applicant in order to reinstate service. Participation in this Fund shall terminate on the date of transfer.

(b) Until January 1, 2006, any member under subsection (a) may reinstate service which was terminated by receipt of a refund, by payment to the police pension fund of the amount of the refund with interest thereon at the rate of 6% per year, compounded annually, from the date of refund to the date of payment.

(40 ILCS 5/7-139) (from Ch. 108 1/2, par. 7-139)

Sec. 7-139. Credits and creditable service to employees.

...

10. For service transferred from an Article 3 system under Section 3-110.8: Credits and creditable service shall be granted for service under Article 3 of this Act as provided in Section 3-110.8, to any active member of this Fund upon transfer of such credits pursuant to Section 3-110.8. If the amount by which (1) the employer and employee contributions that would have been required if he had participated in this Fund during the period for which credit is being transferred, plus interest thereon at the effective rate for each year, compounded annually, from the date of termination of the service for which credit is being transferred to the date of payment, exceeds (2) the amount actually transferred to the Fund, then the amount of creditable service established under this paragraph 10 shall be reduced by a corresponding amount in accordance with the rules and procedures established under this paragraph 10.

The board shall establish by rule the manner of making the calculation required under this paragraph 10, taking into account the appropriate actuarial assumptions; the member's service, age, and salary history; the level of funding of the employer; and any other factors that the board determines to be relevant.

...

(40 ILCS 5/7-139.11 new)

Sec. 7-139.11. Transfer to Article 3 pension fund.

(a) Until January 1, 2006, a person who has less than 8 years of creditable service under this Article and who has become an active participant in a police pension fund established under Article 3 of this Code may apply for transfer to that Article 3 fund of his or her creditable service accumulated under this Article. At the time of the transfer the Fund shall pay to the police pension fund an amount equal to:

(1) the amounts accumulated to the credit of the applicant under this Article, including interest; and

(2) the municipality credits based on that service, including interest; and

(3) any interest paid by the applicant in order to reinstate that service. Participation in this Fund with respect to the transferred credits shall terminate on the date of transfer.

(b) An active member of a pension fund established under Article 3 of this Code may reinstate creditable service under this Article that was terminated by receipt of a refund, by paying to the Fund the amount of the refund plus interest thereon at the rate of 6% per year, compounded annually, from the date of refund to the date of payment.

Section 99. Effective date. This Act takes effect upon becoming law.

## Synopsis:

### Transfer Article 3 police pension fund service to IMRF, Article 7.

Section 3-110.8. Allows the transfer of creditable service time accumulated in an Article 3 police pension fund to be transferred to the Article 7 pension fund, IMRF. The individual must be an active member of the Illinois Municipal Retirement Fund. The applicant should make written application to both their former Article 3 police pension fund and IMRF. IMRF must receive an application for this transfer by Friday, December 30, 2005.

If the active member of IMRF needs to reinstate service in the Article 3 police pension fund which was terminated by the receipt of a refund, the former police officer may do so by paying the police pension fund the amount of the refund with interest thereon at the rate of 6% per year, compounded annually, from the date of refund to the date of payment. **It is the Public Pension Division's opinion that the former police officer must reinstate all creditable service time terminated by the receipt of a refund.** If the former police officer does not have less than 8 years of creditable service time in the police pension fund, the former police officer is not eligible to transfer the creditable service time to IMRF.

Section 3-110.8., also describes the amount the police pension fund is required to pay IMRF.

The police pension fund will be required to pay IMRF an amount equal to:

- 1) the former police officer's contributions, accumulated to the credit of the former officer in the police pension fund on the date of transfer; and
- 2) employer, municipality, contributions in an amount equal to the former officer's contributions determined under 1); and
- 3) any interest paid by the former police officer in order to reinstate service in the Article 3 police pension fund.

Participation shall terminate in the police pension fund on the date of transfer.

For further details and an explanation of the Article 7 responsibilities and procedures, including the determination of the amount of creditable service time that will be credited in IMRF, in accordance with Section 7-139. paragraph 10., please contact IMRF at 1-800-ASK-IMRF (1-800-275-4673) or visit their website at [www.imrf.org](http://www.imrf.org).

### Transfer Article 7, IMRF, service to Article 3 police pension fund.

Section 7-139.11. Allows the transfer of creditable service time accumulated under the Article 7 fund, IMRF, to an Article 3 police pension fund. The individual must be an active participant in an Article 3 police pension fund.

Until January 1, 2006, the police officer who has less than 8 years of creditable service under the Article 7 fund, IMRF, may apply to transfer his or her creditable service accumulated under Article 7 to the Article 3 police pension fund. The applicant should make written application to

both their Article 3 police pension fund and IMRF. **As long as the police officer makes a written application to his or her police pension fund board by January 1, 2006, the officer is eligible to transfer the accumulated creditable service time.**

If the active member of the police pension fund needs to reinstate service in the Article 7 fund that was terminated by the receipt of a refund, the police officer may do so by paying IMRF the amount of the refund with interest thereon at the rate of 6% per year, compounded annually, from the date of refund to the date of payment. Being that Article 7 of the IL Pension Code allows for partial reinstatements, it is the opinion of IMRF that the current police officers who previously forfeited more than 8 years of service may reinstate 7 years and 11 months in order to be eligible for this transfer provision provided under P.A. 094-0356. Please contact IMRF for their policies and procedures regarding the reinstatement of creditable service with IMRF.

Section 7-139.11, describes the amount IMRF shall pay to the police pension fund. IMRF will be required to pay to the police pension fund an amount equal to:

- 1) the amounts accumulated to the credit applicant under Article 7, IMRF, including interest; and
- 2) the municipality credits based on that service, including interest; and
- 3) any interest paid by the applicant in order to reinstate service in IMRF.

Participation shall terminate in IMRF on the date of transfer.

For a further details and an explanation of the Article 7 responsibilities and procedures, regarding the calculation of the amount to be paid to the Article 3 police pension fund, please contact IMRF at 1-800-ASK-IMRF (1-800-275-4673) or visit their website at [www.imrf.org](http://www.imrf.org).

Section 3-110. Creditable service, subsection (e) (new), charges the Public Pension Division with establishing, by rule, the manner of making the calculation to determine the amount of creditable service time that shall be credited to the Article 3 police pension fund based on the ratio of the amount paid to the police pension fund by IMRF to the true cost of allowing that creditable service to be established; See Section 3-110.(e)(2) and (3).

The following is a summary of the intended steps to be followed for the transfer of creditable service time from IMRF to an Article 3 police pension fund. These steps will be described in further detail in the Illinois Administrative Code, Part 4403, upon adoption.

### **Section 4403.30 Definitions**

True Cost shall be defined as the increase in the actuarial accrued liability or reserve amount, as applicable, calculated pursuant to Section 4403.50 of this Part and Section 3-110 of the Illinois Pension Code [40 ILCS 5/3-110], resulting from the transfer of creditable service from the IMRF to the Article 3 Fund.

### **Section 4403.40 Application for Transfer of Creditable Service From IMRF to Police Pension Fund**

Any police officer who is an active member of an Article 3 police pension fund must submit a written application, including a completed copy of Illustration A of this Part, to his or her police pension fund board of trustees by no later than January 1, 2006, identifying by date and time frame, the accumulated

creditable service to be transferred from the Article 7 Fund. Pursuant to Section 7-139.11., when requesting to transfer accumulated creditable service, the police officer must have accumulated creditable service time of less than 8 years.

### **Section 4403.50 Method for Calculation of the True Cost**

**The “True Cost” is defined and computed under this Administrative Rule in the same manner in which it is defined and computed under the Administrative Rule, Part 4404, for Portability of Creditable Service Time for Police.**

- a) The qualified actuary shall provide the current pension fund with the actuarial accrued liability assuming continuation of active status, and the amount of reserve for each possible status that may apply to the officer as set forth in subsection (b) of this Section. The actuarial accrued liability and reserve amounts shall be computed utilizing the actuarial cost method and the same assumptions that were used for determining the most recent actuarial valuation for the police pension fund.
- ...
- d) The police pension fund board of trustees shall determine the true cost for the requested period of creditable service time with information provided to the police pension fund by either:
  - 1) the Illinois Department of Financial and Professional Regulation, upon written request submitted in the format prescribed by Illustration A of this Part. The Department will return the information requested within 30 days after receipt of such request, if the Department's actuarial valuation was used for determining the most recent funding requirements of the police pension fund, or
  - 2) the qualified actuary who was retained by the municipality or pension fund to determine the most recent actuarial valuation used for determining the funding requirements of the police pension fund.

### **Section 4403.60 Police Pension Fund Notification Requirement**

Within 30 days after receipt of the police officer's application, the police pension fund shall provide written notification to both the requesting officer and the IMRF verifying receipt of such request. The police pension fund shall obtain ..., as well as the amount the IMRF will transfer to the police pension fund as calculated pursuant to Section 7-139.11 and the amount the police officer is required to pay the IMRF in order to reinstate service .... At this time the police pension fund shall also provide written notification to the independent actuary or the Division as applicable, requesting the actuarial amounts to be used in the true cost determination.

### **Section 4403.70 IMRF Notification Requirement**

Within 30 days after receipt of the police pension fund's notification, the IMRF shall provide written notification, to both the requesting officer and the police pension fund, verifying receipt .... IMRF must

also verify the creditable service time on record, and identify the amount of money due to be transferred to the police pension fund on behalf of the officer .... In the event that a refund has been taken, the IMRF must also notify the officer and the police pension fund of the amount of money that is owed to the IMRF in order to reinstate the service time. ...

**Section 4404.80 Police Fund Determination of Creditable Service Time to be Credited and Notification to the Police Officer**

Within 14 days after receipt of the prior IMRF notification, the police pension fund shall notify the requesting officer of creditable service time that will be credited to the police pension fund.... The amount to be credited in the police pension fund shall equal a portion of creditable service time accumulated in the IMRF after applying to that service the ratio of the amount transferred from IMRF ... to the appropriate true cost amount as determined under Section 4403.50 of this Part. If the ratio of the amount transferred from IMRF to the appropriate true cost amount is greater than one, only the amount of actual creditable service time accumulated in IMRF is credited to the police pension fund.

$$\text{Service Credited in Police Fund} = \text{Accumulated Creditable Service Time in IMRF} \times \frac{\text{(Dollar Amount Transferred from IMRF)}}{\text{( Appropriate True Cost )}}$$

**Section 4404.90 Final Authorization to Transfer or Withdraw**

Within 14 days after receiving notification from the police pension fund, which must include the actual creditable service to be credited in the police pension fund and the reinstating amount to be paid to the IMRF, the officer must either:

- a) Provide an irrevocable written authorization to transfer creditable service time to the police pension fund, and if applicable, repay the IMRF any refund with interest; or
- b) Submit a written request to withdraw the initial application for transferring creditable service to the current pension fund; or
- c) If the officer fails to take action by the 15th day, pursuant to either subsection (a) or (b) of this Section, the initial request to transfer the designated creditable service time will be automatically withdrawn.

**Section 4403.100 Transfer of Creditable Service Time**

Within 14 days after the IMRF receives a copy of the officer's final authorization and the repayment of any refund with interest, if applicable, the IMRF must transfer the creditable service time to the police pension fund along with the payment of all moneys required to be transferred.

**Section 4403.130 Police Pension Fund Reporting Requirements**

Within 30 days after the designated creditable service time has been transferred to the police pension fund, the police pension fund must file a report with the Public Pension Division. The report must contain the following:

The Administrative Rule will list the items required.